CINAR CORPORATION

Annual Report 2001



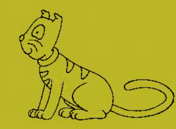
NOTE :
All dollar figures are in canadian funds unless otherwise indicated.
Every reference to financial information, except for 2001, is unaudited.

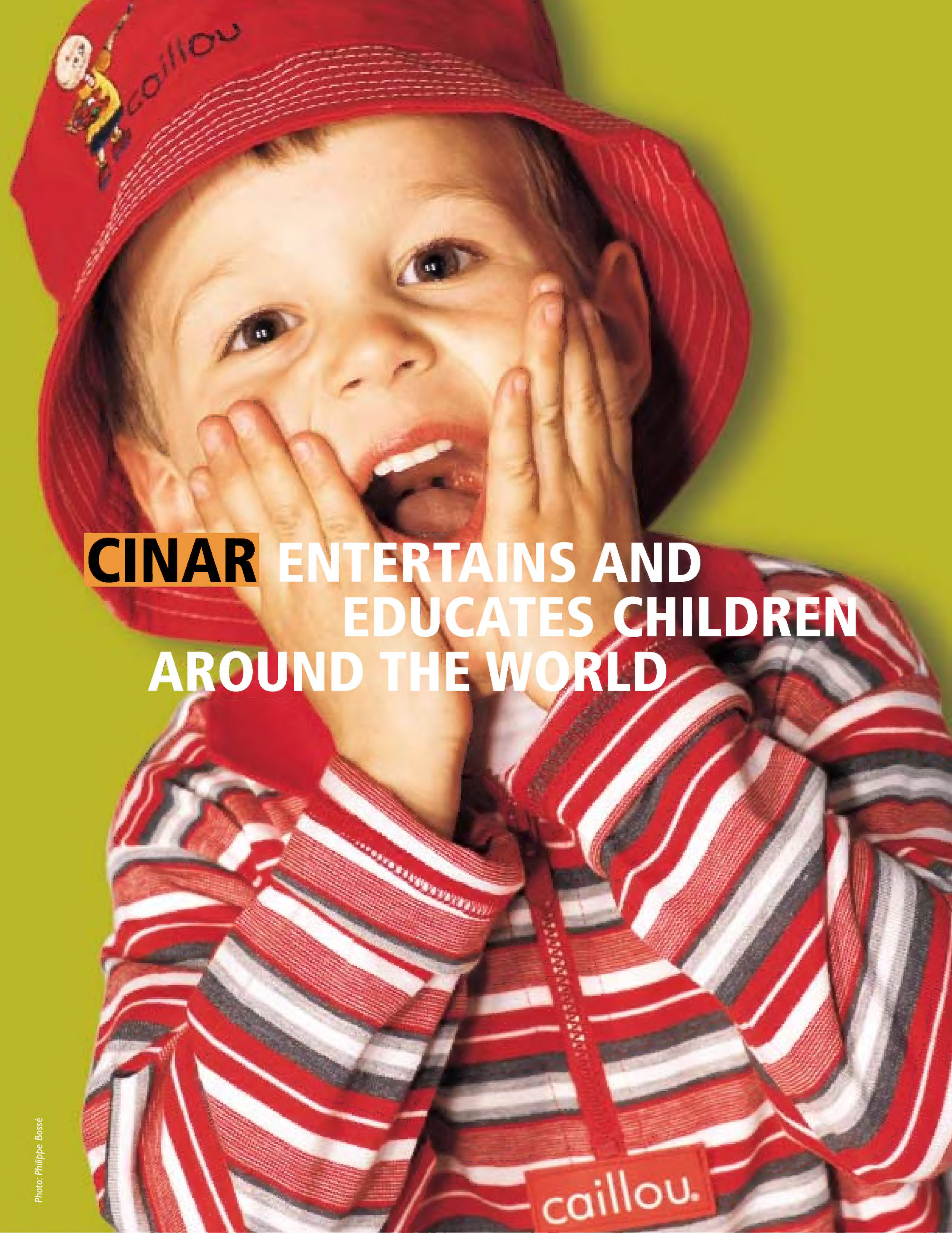
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FINANCIAL HIGHLIGHTS

Some Key Numbers

[In thousands of Canadian dollars except per share amounts]	Year Ended Nov. 30,
	2001
STATEMENT OF OPERATIONS DATA	
Revenues	131,730
Loss before unusual items	(6,875)
Loss from continuing operations	(32,097)
Net loss	(42,023)
PER SHARE DATA	
Loss from continuing operations	(0.78)
Net loss	(1.02)
Average number of shares outstanding (000)	40,984
BALANCE SHEET DATA	
Cash and marketable securities	47,556
Shareholders' equity	212,373
CASH FLOW INFORMATION	
Cash provided by operating activities	20,555





CINAR ENTERTAINS AND EDUCATES CHILDREN AROUND THE WORLD

Photo: Philippe Bossé

MISSION AND PROFILE

Our Commitment

MISSION STATEMENT

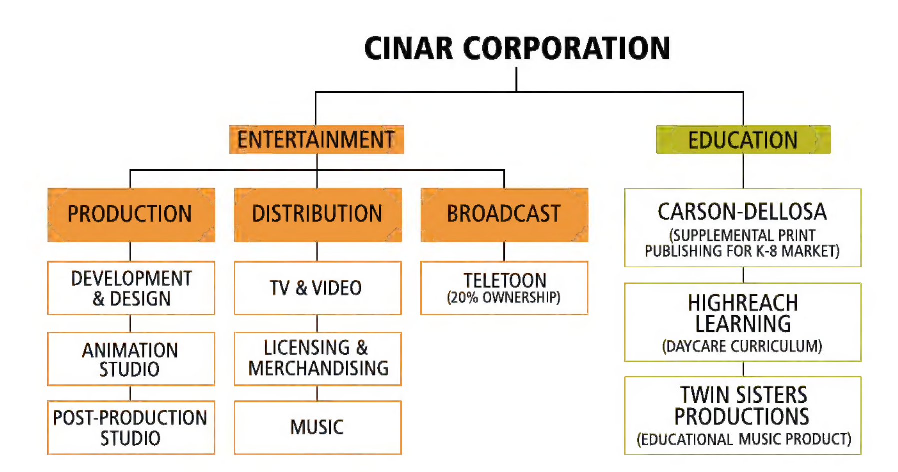
CINAR is committed to entertaining and educating children and families by producing, distributing and marketing quality, non-violent entertainment and education content for the global marketplace.

CORPORATE PROFILE

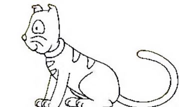
CINAR Corporation ("CINAR" or "the Company") is an integrated entertainment and education company that develops, produces, markets and distributes high-quality, non-violent programming and supplemental education products for children, families and educators worldwide. The Company operates through two divisions: CINAR Entertainment and CINAR Education. Through CINAR's diverse television programming, licensing and merchandising of entertainment-related products and array of supplemental education products, the Company appeals to children worldwide throughout their entire day.

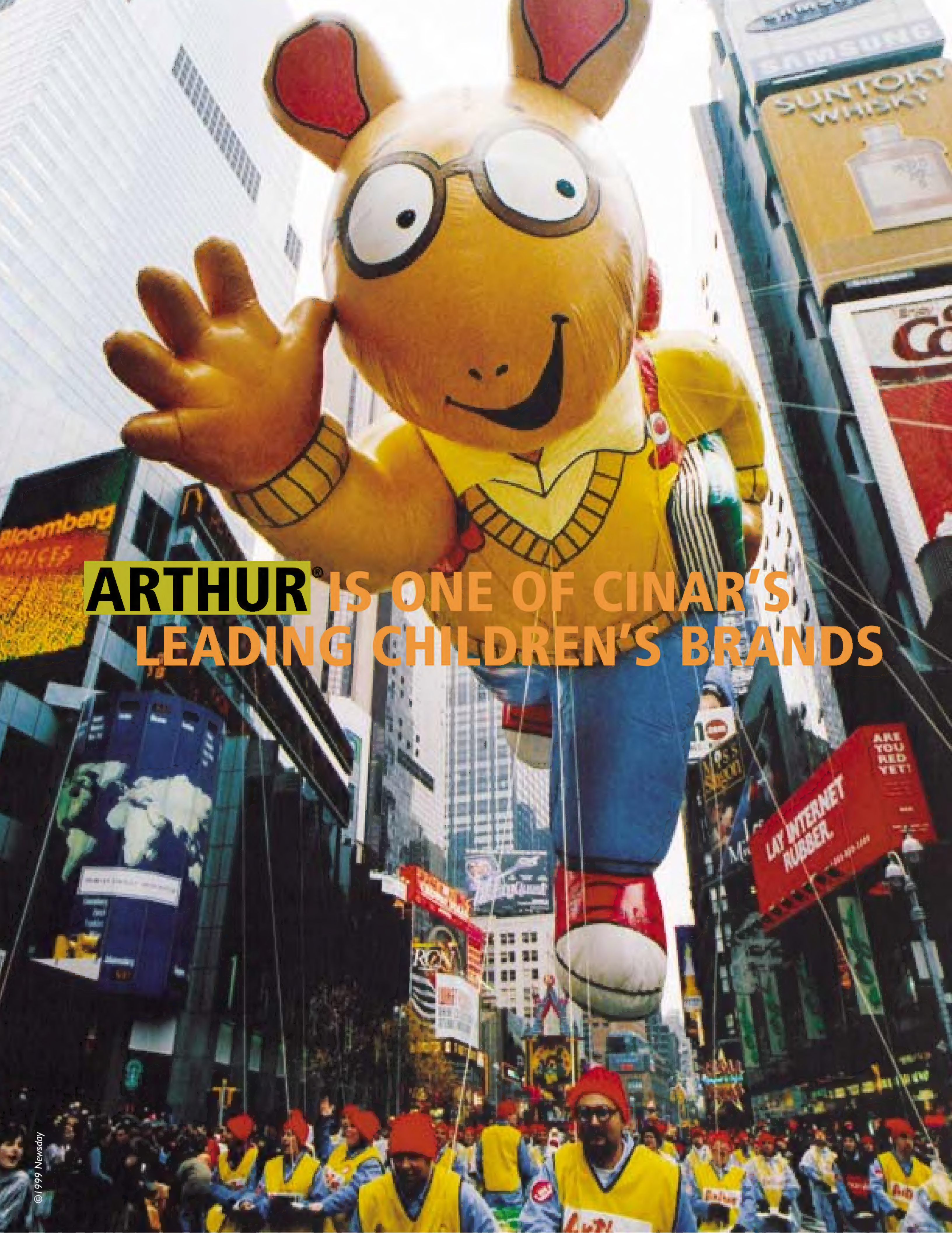
CINAR's divisions and subsidiaries on the entertainment side include: CINAR Animation, a full-service animation studio; CINAR Studios, a sound recording, mixing, audio and video post-production facility; CINAR Music, a music publisher and children's record label; CINAR Licensing, which manages all merchandising activity for the Company; a 20% equity interest in Canada's TeleTOON channels; and, as part of the recent restructuring initiatives, a new, Montreal-based TV sales and distribution team. On the education side, the Company's subsidiaries include: U.S.A. based Carson-Dellosa Publishing Company, a publisher of supplemental education products; HighReach Learning, a provider of pre-school curricula to the daycare market; and Twin Sisters Productions, an educational record label.

Through its network of co-production partners and relationships with key broadcasters, CINAR's productions continue to be seen daily in Canada, the U.S.A. and in more than 150 countries. CINAR's educational products are marketed each year to millions of teachers and caregivers in North America and beyond.



CAILLOU® is Canada's Number One-selling preschool property.





ARTHUR® IS ONE OF CINAR'S LEADING CHILDREN'S BRANDS

©1999 Newsday

MESSAGE TO SHAREHOLDERS

Building On Our Strenghts

OVERVIEW: BUSINESS OPERATIONS MAINTAINED DESPITE NEGATIVE DEVELOPMENTS

The past 30 months have not been easy for CINAR. During this period, the Company has been subject to a number of extraordinary, non-operating developments that have negatively impacted CINAR's financial statements and short-term operations. These events included:

- the discovery of alleged improper tax-credit claims and tax benefits with respect to past productions which have been the subject of settlements with tax authorities;

- the discovery of unauthorized investments totaling US$122 million with Globe-X Management and the departure of CINAR's two co-founders/co-CEOs as well as its Senior Executive Vice-President;

- the suspension from trading and subsequent de-listing of CINAR shares (TSE and NASDAQ);

- the resignation of Ernst & Young as the Company's auditors;

- class-action suits in the United States and Canada brought by purchasers of CINAR stock, alleging that CINAR provided false and misleading information to the investing public that subsequently resulted in overvalued shares and damages to shareholders;

- three separate legal actions by founders and former shareholders of Carson Dellosa, HighReach Learning and Twin Sisters Productions;

At the same time as these extraordinary events were occurring, the market for children's entertainment properties experienced a downturn. As a result, many entertainment companies have reduced their production commitments and downsized their operations. Moreover, the impact of these negative developments were exacerbated by a general economic slump.

CINAR's main challenge over the past 30 months has been to continue running its various businesses in the face of such extraordinary difficulties, thereby maintaining, to the extent reasonably possible, the value of its core assets. The fact that the Company has prevailed in that regard, despite so many negative developments, is a function of the following key strengths:

1) Our substantial cash reserves, which continue to be managed in a prudent manner. Effectively, the Company has not had access to outside financing to support its day-to-day operations since March of 2000. This has caused us to conservatively manage our internal cash reserves, limiting expenditures to essential needs only. Cash in the bank as of November 30, 2001 totaled $47 million.

2) Our strong Education division, which reported overall revenue growth of 12% in 2001.

3) The depth and size of CINAR's film library, which, as of November 30, 2001, included 2,208.5 half-hour equivalents of quality, non-violent animation and live-action programming for children and families.

4) Our leading children's brands known around the world, such as *Caillou*®, *Arthur*® and *Mona the Vampire*™, which we continue to support through new production commitments and merchandising and licensing activity in the United States and abroad.

5) The Company's relationships with its long-term production and broadcast partners on the entertainment side and its customers on the education front, which remain strong.

6) CINAR's equity interest in TeleTOON, which continues to provide the Company with a Canadian home for many of its

ARTHUR® floats through Times Square at the 73rd annual Macy's Thanksgiving Day Parade.

productions as well as a healthy return on investment.

7) Its core group of experienced and knowledgeable senior executives, which includes, on the education side, the founders of the respective business units.

8) The ongoing commitment of our employees, who have continued to deliver on the Company's operational undertakings despite the negative business climate created by non-operational events.

FINANCIAL INFORMATION AND RESULTS

In light of the complex legal and accounting issues that have arisen over the past several years, senior management has made it a priority to clarify CINAR's financial position and, in some instances, to restate past financial results as warranted. We believe this is clearly in the best interests of all shareholders.

To help us meet this challenge, George Rossi was engaged as Chief Financial Officer in November of 2000. Unaudited, but up-to-date financial information was subsequently produced and disseminated by the Company at regular intervals over the course of fiscal 2001. Included in this information were significant adjustments to past years' results as well as new financial information for the fiscal years 1999 and 2000.

In November of 2001, CINAR appointed Richter, Usher & Vineberg as the Company's auditors to audit the financial results for the fiscal year ended November 30, 2001. Audited statements for 2001 have since been made public and are included in this report.

Another top priority of management and the Board of Directors has been the collection of outstanding debts owed CINAR, including tax credits due as well as a substantial sum, referred to above, that was invested offshore without the Board of Directors' knowledge or authority.

Since March of 2000, the Company has been working on recovering the balance of funds that were invested with Bahamas-based Globe-X Management Limited.
As of November 30, 2001 the balance outstanding was US$37,780,000 (CDN$59,420,000) excluding accrued interest. The Company will continue to aggressively pursue the collection of such indebtedness.

As well, every effort is being made during 2002 to catch up on a backlog of applications to various film and television funding agencies, which stemmed from the legal and taxation issues facing the Company. (Those issues are addressed in detail later in this Message.) The current estimate of funds to be claimed by CINAR in respect of these applications is approximately $25 million.

THE SEARCH FOR STRATEGIC ALTERNATIVES

Merrill Lynch was retained by CINAR in August of 2000 to explore strategic options that would serve to maximize shareholder value, including potential business partnerships or mergers. In order to carry out its mandate, Merrill Lynch first required credible historical financial information as well as projections regarding future performance. Such information was provided in early 2001 and various levels of due diligence conducted by interested parties continued into the autumn of 2001.

Merrill Lynch's search for a buyer or buyers was thorough. Over 60 companies were contacted and a number submitted expressions of interest and proceeded through the due diligence phase of the process. In early July of 2001, several bids were received for one or more of the Company's operating assets. Of these offers, only one was viewed by the Board as representing acceptable value for CINAR shareholders. The Company entered into exclusive discussions with this party but it was not possible to reach an agreement on a transaction. As a result, on November 6, 2001, CINAR announced that these discussions had been terminated. The Company has continued working with Merrill Lynch with regards to the ongoing interest of potential buyers and/or partners and is willing to consider a transaction if it will create value for CINAR shareholders.

RESTRUCTURING ENTERTAINMENT AND CORPORATE OPERATIONS

Quite apart from the extraordinary difficulties impacting CINAR during 2001, a general downturn in the economy and in consumer confidence caused a decrease in advertising revenue for broadcasters worldwide. One of the first categories affected was children and family programming and, more specifically, pre-sales for such programs. The net result was that the appetite for new children's programming decreased and broadcasters are now favouring running their inventory of programs over investing in new shows.

CINAR Entertainment had become very much a vertically integrated enterprise in recent years. Our Montreal facility was capable of handling each stage of the production process from creative development up through the chain including production financing and business affairs, production itself, post-production, marketing, distribution and ancillary rights exploitation. In 1997, with the formation of CINAR Europe and the acquisition of the FilmFair library and studio, we added further to our production and distribution capacity. In 2000 we opened Fandango Studios, a dubbing facility in Mexico. These initiatives led to a substantial increase in overhead expenses.

Through fiscal 2000, the consensus within the Company and at the Board level was to continue to honour our commitments and to the extent reasonably possible conduct our business as usual. It was thought that this would best preserve value in the entertainment segment of our business. We had a heavy slate of ongoing production to complete which had been committed to previously and which maintained the Montreal production facilities at full capacity.

As we moved into fiscal 2001, three factors became abundantly clear.

1. There was a possibility that the Company may be sold.
2. We had limited access to outside production financing and would need to manage our cash resources conservatively.
3. Producing at a similar volume as fiscal 2000 would result in large deficits due to the soft distribution market and would deplete rather than enhance shareholder value.

Since we were engaged in the process with Merrill Lynch to market CINAR, it was felt that value was best preserved by maintaining our entertainment operations as a going concern. The one potential buyer with which we were in serious discussions relative to the Entertainment division was interested in maintaining the Montreal production facility. We therefore operated in a business as usual mode while reducing headcount in Montreal from 245 to 181 over the period December 1, 2000 to October 31, 2001, a 26% reduction reflecting our decision to decrease the production slate.

However, as soon as it became evident that a sale of the Entertainment division would not be proceeding, we moved expeditiously to protect shareholder value through further reductions to our entertainment operations and to our corporate head office overhead.

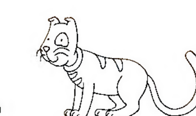
The next phase of the downsizing was implemented in November of 2001, when the staff complement at the Montreal corporate office was reduced to 110. Subsequent to the fiscal year-end, in February of 2002, the Company moved to further reduce overhead by repatriating all television sales and distribution activities to Montreal. CINAR's European sales office in London has been closed. Initiatives are on-going to further reduce overhead by subletting surplus office space in Montreal and in the U.K.

SETTLING WITH GOVERNMENT FUNDING AUTHORITIES

Federal and Provincial Tax Authorities

In October 1999, public allegations were made in the Canadian House of Commons that CINAR had not complied with certain Federal rules and guidelines for certified Canadian productions. These public allegations led CINAR's Audit Committee to retain independent legal counsel to undertake an internal review of the matter. CINAR then initiated a disclosure process in which it co-operated fully with the Canada Customs and Revenue

The Company is willing to consider a transaction if it will create value for CINAR shareholders.



Agency (CCRA) and the Ministère du revenu du Québec (MRQ).

On December 19, 2000, CINAR announced that it had reached agreements with Federal and Provincial tax authorities setting out the terms under which tax matters affecting the Company have been resolved. The agreements with CCRA and MRQ were based upon the Company making full restitution to those agencies. The Company was required to pay approximately $5.1 million to the Federal tax authorities and approximately $7.9 million to the MRQ. Of this amount, $2.0 million was paid to each of the agencies on December 19, 2000. It is not anticipated that any further cash payments will be required, as the balance owing is likely to be offset against amounts owing CINAR. Under the Federal agreement, CINAR also relinquished claims totaling approximately $6.1 million in film tax credits claimed but not yet received and recognized a tax liability of approximately $3.7 million plus applicable interest. Under the agreement with the MRQ, CINAR relinquished claims totaling approximately $3.6 million in film tax credits claimed but not yet received and recognized a tax liability of approximately $1.1 million, plus applicable interest. The total cost of the settlements with these agencies was $27.6 million.

The agreement with the Federal taxation authorities was predicated upon de-certification of certain productions by the Canadian Audio Visual Certification Office (CAVCO), which may require reimbursements of certain amounts under the terms of its funding programs. The full impact of such reimbursements already has been reflected in CINAR's financial results.

As a result of the agreements reached by the Company with the CCRA and the MRQ, CINAR has been able to proceed with applications for Federal and Provincial tax credits for new productions that are not co-produced with other partners. With respect to new productions that are co-productions, a pre-condition to receiving tax credits is that Telefilm Canada must approve the project in question as an official co-production.

Telefilm Canada

Telefilm Canada is the Federal government body that invests in Canadian productions and also approves official co-productions between Canada and other countries with which Canada has entered into co-production treaties.

Effective November 9, 1999, Telefilm Canada suspended its business dealings with CINAR, thereby refusing to make any further investments in the Company's productions or to consider any further applications for co-production approval that the Company may have been contemplating with co-production partners in other countries.

On June 22, 2001, CINAR and Telefilm Canada reached an agreement whereby CINAR would repay Telefilm Canada approximately CDN $2.6 million in full reimbursement of investments and subsidies, including interest, over a two year period. Under the terms of this agreement, CINAR is eligible to apply for certification of its productions as official co-productions and has been doing so since the settlement date. Telefilm Canada imposed a five-year suspension on CINAR and its subsidiaries, in respect of investments, subsidies and other financial assistance by Telefilm Canada, until November 2004.

To the extent that it is satisfied with changes in CINAR's control and administrative systems, Telefilm Canada could gradually resume funding of the Company's films beginning in fiscal 2002-2003. Furthermore, in the event of a change of control of the Company or any of its subsidiaries in favour of a third party acting at arm's length, Telefilm Canada indicated that the suspension will be lifted. In addition to the foregoing, it has been agreed that Telefilm Canada shall be entitled to audit certification files, past, present and future.

SUPPORTING THE CONTINUED GROWTH OF CINAR EDUCATION

On a more positive note, we are pleased to report that, once again in 2001, CINAR Education posted impressive gains in revenue and earnings. Education revenue increased from $77.2 million to $86.5 million. Because much of its business is based on customer relationships developed over the years by the senior management of CINAR Education and its predecessor companies, operations on the education side were much less affected by the Corporation's non-operational problems. However, certain operational decisions, including the matter of much-needed new facilities, were postponed due to the uncertainty stemming from the possible sale of all or part of CINAR's assets.

Carson-Dellosa Publishing Company

Carson-Dellosa Publishing Company, which sells specialty school supplies and classroom materials to the pre-school to

eighth grade market, had a strong year in spite of a weak U.S. economy, not to mention certain operational inefficiencies due to its current facility being at capacity.



Carson-Dellosa met projections for both revenue and profits. Over the course of the year, it introduced more than 300 new products, which not only contributed to a strong 2001, but also laid the foundation for additional growth in 2002 and beyond.

Moreover, Carson-Dellosa continues to be rated as one of the very top producers of supplemental education materials for elementary school teachers. Its customer-approval rating, which historically has always been very high, is now at a record level.

HighReach Learning

HighReach Learning, which specializes in the design, publication and distribution of proprietary early childhood educational products for children from 16 months through kindergarten is a high-margin, niche business that markets for the most part to independent daycare centers across the United States and is a recognized leader in the field.



Its current penetration is 3% and there is ample opportunity for growth in an early-childhood-education landscape that continues to evolve.

HighReach Learning in the United States also has a key strategic relationship with the federally supported Head Start program, which we believe can be further leveraged in 2002 to increase product offering and distribution opportunities. To that end, HighReach management is closely studying the new Head Start "Child Outcomes Framework" that will be implemented in the fall of 2002. The goal is to enhance program quality and consistency and to track the progress of children over time. HighReach is redesigning its framework curriculum to conform to these new guidelines and make its programs more "user friendly" for teachers. As well, it plans to introduce an optional, computer-based tracking program that will be able to track development and generate progress reports on an individual and/or summary basis.

HighReach Learning management also has sharpened its focus on state-level regulations and initiatives directed at providing early child services, with the goal of making its curricula available and eligible for purchase in all state-funded early childhood programs.

Twin Sisters Productions



Twin Sisters Productions, which is a record label and music publisher dedicated to producing high quality music and educational resources for children, parents and educators, produced in 2001 18 new albums totaling more than 120 new products. The products continue to receive the *National Parenting Seal of Approval*, *Parent's Choice Approval*, and other awards for educational excellence, creativity, classroom and family fun. The culmination of their success was the certification of *Nature Sounds*, a Gold Album, by the Recording Industry Association of America (RIAA) for sales of more than 500,000 units. This is the second Gold Album for Twin Sisters.

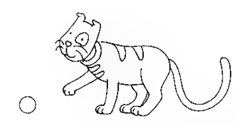
OUTLOOK FOR 2002

CINAR Entertainment: Re-building for the Future

On the entertainment side, we expect the downturn in demand for new children's programming to continue for the next 12 to 18 months. Consequently, the Company plans to adhere to a scaled-back production commitment for the balance of 2002. We will re-allocate Company resources from producing a larger slate of productions to supporting a smaller strategic slate of international brands with more rights and revenue streams attached.

Production: Reduce Production Investment Risk

Over the course of the next 12 to 18 months, the production strategy will be as follows:



- Favour renewals of production cycles of existing series over new titles. Aside from the fact that margins are higher, renewals and extensions of existing series are more easily concluded.

- Sustain key brands by moving forward with new episodes of titles with market momentum such as *Caillou®*, *Mona The Vampire™* and *Arthur®*, where ancillary business activity (licensing, music) will benefit from new episodes.

- Seek out minority co-productions with recurring production partners, which would require minimal cash investment and could leverage infrastructure (post-production facilities, sales and distribution department).

- Favour Canadian content opportunities in order to access government subsidies.

Maintain Development Activity

Given the downturn in the market for new programming combined with the need for conservative cash-flow management, CINAR also has chosen to reduce its development activity from past levels. This does not mean that we will abandon all development activity. Certain properties currently under option will be renewed. However, rather than moving forward with expensive rights acquisitions which we are not able to produce profitably at present, we will place increased emphasis on developing original series concepts in-house. CINAR's strategy in 2002 will be to access broadcasters' reduced budgets by actively pursuing catalogue sales as opposed to pre-sales of new shows. In a market environment where broadcasters wish to minimize their risk, the trend should favour inventory purchases over investment in new programming. Consequently CINAR's catalogue of programs could represent a greater source of ongoing revenue for the Company in the future. In order to achieve this, a renewed marketing effort will be undertaken positioning CINAR as a tried and true provider of quality non-violent programming.

TV Sales: Leverage Large Unencumbered Library

The television sales strategy will be as follows:

1- In markets where the Company already has sold extensively, we will focus on core brands and on selling new episodes currently in production, packaged with library titles.

2- Target new sales for markets where the Company has historically been less active.

3- Various library titles become available for resale on an annual basis. The sales team will focus on extensions and renewals of these titles. These types of sales generate increased margins for the Company, as terms are often already negotiated, language dubs are paid for and the material already is in the possession of the broadcaster.

4- We will capitalize on the depth and variety of programming in the CINAR library to sell custom blocks of programming catering to specific age groups and/or audiences.

Licensing: Focus on Maximizing Return in North America and Building for Future Internationally

Revenue from licensing should continue to grow in response to the Company's increased emphasis on ancillary rights exploitation. In 2002, CINAR Licensing is poised to start to reap the benefits of its *Caillou®* brand building efforts in the United States.

In Canada the property doubled its revenue in 2001 and plans are for this to double again in 2002. With regards to our second PBS property, *Zoboomafoo®*, toys enjoyed Canadian launch late 2001 and will be re-launched into specialty markets in the U.S. in Fall of 2002. *Mona The Vampire™* is gaining momentum in Europe with extensive TV sales and strong ratings.

Music: Increase Royalty Collection Efficiency

As music publisher of the original music featured in CINAR's television shows, CINAR Music, on behalf of the Company and its partners, actively manages and collects performance and mechanical publishing royalties which result from the broadcast of our programs around the globe. With a smaller production volume, the focus will be on increasing collection efficiencies in order to continue to generate similar high margin returns as recent years.

CINAR Education: Continue to Support Growth

Turning to CINAR Education, the challenges for 2002 are many and varied, yet so are the opportunities. The political agenda in the United States continues to support increased spending in the education sector. On the operational front, we need to improve efficiencies through such measures as: 1) continue to consolidate various operating facilities; 2) move forward on the decision to relocate Carson-Dellosa to a new, larger facility; 3) increase cross-marketing efforts among the various education companies; and 4) improve the profitability of Twin Sisters Productions.

The bottom line here is that each of our education units has the potential for greater market penetration, so all indications are that the growth trend in the revenue will continue for 2002. In short, we anticipate another commendable performance by CINAR Education.

In conclusion, we wish to emphasize that notwithstanding the challenges CINAR has faced over the past 30 months, this remains a company with certain key strengths. We must use these strengths as a base to move forward. Our priorities for the current year are:

- To protect our key properties as we attempt to restore our entertainment operations to profitability.
- To continue to support the growth and potential of CINAR Education.
- To settle the key legal actions.
- To continue to focus on reducing our cost base and putting our financial affairs in order.

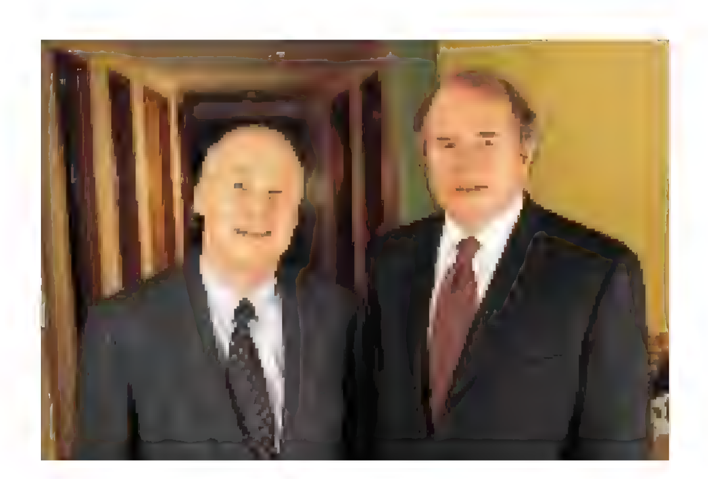
We are committed to maximizing shareholder value. As we achieve our short-term objectives, we will continue to explore longer term strategic alternatives to eventually ensure that our shareholders' patience is rewarded.

We thank you, shareholders, for that patience.

Finally, on behalf of the Board, we would like to thank CINAR employees throughout the Company for their commitment and loyalty under very trying circumstances.

Lawrence P. Yelin
Chairman of the Board

Barrie Usher
President and Chief Executive Officer






CAILLOU® IS WATCHED BY MORE
THAN 7 MILLION CHILDREN
IN THE USA EVERY WEEK

REVIEW OF OPERATIONS

Resolving Many Issues

Fiscal 2001 could be summed up as a difficult year, during which the Company had to resolve many issues arising from the negative developments of 1999 and 2000 while, at the same time, continuing to meet commitments to production partners, broadcasters and licensees in CINAR Entertainment as well as our customers in Education. It was also a year in which the Company worked diligently with Merrill Lynch to maximize shareholder value by means of a transaction that would involve the sale of all or parts of CINAR's assets. Unfortunately, conditions were not favourable to facilitate such a transaction in an acceptable value range.

Notwithstanding the burden of the numerous non-operational issues, the Company continued to deliver quality entertainment and educational products to customers worldwide throughout the year. And while the 2001 financial results for CINAR Entertainment were understandably poor, reflecting write-downs and significant decreases in production volume and television sales, revenue from CINAR Education increased by some 12%, largely as the result of continued strong growth in the revenues of Carson-Dellosa and HighReach Learning.

FINANCIAL OVERVIEW: EARNINGS DECLINE

Because senior management determined it could not provide the required assurances with respect to reporting periods prior to its appointment, the Company was unable to issue audited financial statements for the years ended November 30, 2000 and November 30, 1999, or audited restatements for the fiscal years ended November 30, 1998 and 1997.

For fiscal 2001, however, senior management was able to provide the necessary representations to allow an audit to be carried out. These audited results indicate that overall revenue decreased 11.2% to $131.7 million from $148.3 million in the year 2000. By contrast, CINAR Education posted record increases in revenue (11.9%) and for the first time accounted for a greater percentage of total revenue than the Entertainment division. Entertainment division earnings reflect a sharp reduction in production deliveries in 2001, 94 half-hour equivalents compared with 236 half-hour equivalents in fiscal 2000, and a decrease in television sales revenue, to $45.3 million in 2001 from $71.1 million the previous year.

REVIEW OF ENTERTAINMENT OPERATIONS

Restructuring

It became evident during fiscal 2001 that CINAR's entertainment operations and overhead were considerably larger than could be justified by recent business volumes and, consequently, had to be cut back. Accordingly, the decision was made to eliminate certain departments that had been established over the years as part of the Company's vertical integration strategy but, in the context of a reduced capacity, were no longer core to its entertainment business. The following initiatives have been undertaken in that regard:

Downsizing Entertainment and Corporate Staff

In November 2001, the staff at the Company's Montreal offices was reduced from 164 to 110. Included were reductions in production, development, CINAR Design, CINAR

CAILLOU® performing "Live" at Montreal's annual "Fête des enfants"

Studios and corporate support staff. These reductions also encompassed certain long-serving members of senior management.

Consolidating TV Sales in Montreal

Subsequent to year-end (during Q1 of fiscal 2002), CINAR's worldwide television-sales and video-distribution operations were consolidated in Montreal and the phase-out of CINAR Europe operations was started. Staff from CINAR's FilmFair stop-frame animation studio in the U.K. was terminated in February of 2002, due to a lack of production activity. Cost savings from these initiatives will be realized in the course of fiscal 2002.

Reduced Production-Investment Risk

Up until fiscal 2000, CINAR's overall growth strategy for its Entertainment division was to grow the business by increasing production volumes from year to year. In other words, the more episodes delivered on a yearly basis the better. But over the past 24 months, changes in the industry, such as consolidation, decreased advertising revenue, the re-trenching of key European markets like Germany and difficulties in penetrating the U.S. market, have resulted in a reduced demand for children's programming. What this meant for CINAR is that production volumes on the magnitude of those undertaken for fiscal 1999 and 2000 had outgrown the ability of the international broadcast marketplace to finance. Moreover, this situation was exacerbated by the inability of the Company to seek outside financing either via government agencies (due to various suspensions) or lending institutions (due to the lack of audited results and the suspension of trading in CINAR shares). Consequently, the Company reduced its production commitment while protecting the Entertainment division's top brands and best-sellers.

Deliveries during 2001 decreased dramatically as a result, from 226 half-hour equivalents in 2000 to 94 half-hour equivalents. The slate of programming delivered in 2001 included back-logs of series that began production in 2000, such as *The Twins™*, *Treasure™*, *Zoboomafoo®* and *Upstairs Downstairs Bears™*, as well as new or continuing production cycles that received the green light during the year under review. Included in this category were *Arthur®* (episodes 86-95) and *Mona The Vampire™* (episodes 27-39 and episodes 40-52).

2001 PRODUCTION DELIVERIES

PRODUCTION (episodes)	2001
Arthur (86 to 95)	10
Mona the Vampire (27 to 39)	13
Mona the Vampire (40 to 52)	4
Twins (The) (1 to 13)	2
Treasure (1 to 13)	6
Miss Mallard (14 to 26)	13
Upstairs Downstairs Bears (1 to 13)	10
Zoboomafoo (41 to 65)	16
Journey to the West (Feature)	4
Both Sides of the Law (MOW)	3
Penny Promise (MOW)	3
Caillou (41 to 56)	10
TOTAL	94

Library Sales

CINAR benefits from a large and growing library of programming as well as an extensive array of rights to the associated proprietary characters including rights for television, home video, merchandising, education, music, multimedia, book publishing and the Internet.

As of November 30, 2001, CINAR's library consisted of 2,208.5 half-hour equivalents of children and family programming representing some 160 individual titles, which are marketed directly to broadcasters around the world. This compared with 2,114 half-hour equivalents at the end of fiscal 2000 and 1,888 in 1999. However, despite continued growth in the size of its library, CINAR's television sales revenue has declined in the past two fiscal years. Library sales in 2001 were $25 million.

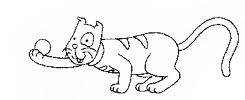
This decrease can be attributed to a combination of the downturn in the children-and-family television market and the general climate of uncertainty surrounding the Company. More specifically, the factors that have impacted library sales include: 1) a hesitancy on the part of CINAR's broadcaster clients to enter into new sales agreements due to the prevailing uncertainty as to whether CINAR would continue to honour its commitments; 2) changes in the marketplace whereby former broadcast buyers have become competitors as a result of industry consolidation; 3) a decline in new deliveries that negatively affected sales of library titles as well (existing library shows are usually bundled with new titles); and 4) a conscious effort to collect existing receivables even at the expense of generating new sales activities.

Nevertheless, the Company believes that both the programs and associated rights represented by CINAR's extensive library assets continue to have considerable long-term value, given that children's and family programming can repeatedly be resold to new generations of television audiences around the world. In particular animation characters appeal to audiences of all cultures and languages, making the Company's animated programs easily marketable on a global basis.

Employees from CINAR's Head Office in Montreal, Canada







Licensing and Merchandising

CINAR's licensing efforts are focused on creating branded identities for the Company's proprietary characters. The Company generates merchandising revenue in two ways: (i) through its ownership interest in the properties; and (ii) through the commissions it is entitled to in its role as licensing agent.

The Company's proprietary characters and programs are licensed to marketers and distributors including Yoplait, Brighter Child Interactive, Sony Canada and Irwin Toy.



CINAR Licensing's stand at Licensing 2001 in NY

Manufacturers produce an array of products that encompasses dolls, pre-school toys, lunch-box kits, desk accessories, stationery items, board games, clothing, comics and CD-ROMs, as well as consumer-promotional programs. In order to help maximize licensing revenue, CINAR Licensing participates in relevant trade shows, advertises in leading trade publications and is active in retail consumer promotions.

During fiscal 2000 and 2001, CINAR Licensing focused its efforts in the United States primarily on its hit properties from programs that appear on PBS (the U.S. Public Broadcasting System), *Caillou®* and *Zoboomafoo®*. In Europe, the main focus was on *Mona The Vampire™*, which is broadcast on several major European networks, and in the French-speaking market on *Caillou®*. *Caillou®* also continues to be a major licensing success in Canada.

Revenue from licensing and merchandising was $3.6 million in fiscal 2001. This is primarily attributable to increased North American licensing activity surrounding *Caillou®* and *Zoboomafoo®* but it also reflects the Company's ownership interest and revenue entitlements in other well-established children's properties such as *Arthur®*, *The Adventures of Paddington Bear™*, and *The Busy World of Richard Scarry™*.

Music

Music rights represent another expanding revenue stream for CINAR. Over the years, CINAR has succeeded in negotiating administration rights for titles and territories that often include producer-partner territories. As a result, revenue grew substantially over the past five years. As of November 30, 2001 CINAR Music held the rights to more than 600 original songs and original music scores for the large majority of its library of programming. As music publisher of the original music featured in CINAR's television programming (songs and underscores), CINAR Music, on behalf of the Company and its co-production partners, actively manages and collects performance and mechanical royalties every time an episode is aired anywhere in the world, a video or audio product is sold, or an episode is mechanically reproduced for broadcast. CINAR Music is also unique, in that most television production companies choose to outsource this function and therefore tend to be less successful in securing the appropriate royalties. Despite a much smaller production slate, music revenue for 2001 was consistent with 2000 levels, at $2.5 million.

TeleTOON

CINAR is a co-founder and 20% shareholder of TeleTOON Canada Inc. (TeleTOON). TeleTOON operates two 24-hour, all-animation cable television channels in Canada, one that broadcasts in French and the other in English. Since its inception in 1997, TeleTOON has consistently been ranked, as measured by viewing audience, among the top five cable channels in Canada. TeleTOON has achieved approximately 50% and 80% cable-subscriber penetration rates in English Canada and French Canada, respectively, and is currently received in more than 5.5 million Canadian households.

As a Canadian broadcaster, TeleTOON's broadcast license also fulfills one of the pre-requisites for qualifying a given animation production for Canadian-content tax incentives and CINAR continues to provide original Canadian content production for broadcast on TeleTOON.

A summary of selected audited financial information regarding TeleTOON is provided in the table below.

REVIEW OF EDUCATION OPERATIONS

Carson-Dellosa Publishing Company

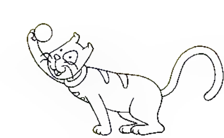
As well as delivering a sparkling financial performance, Carson-Dellosa, which sells specialty school supplies and classroom materials to the pre-school to eighth grade market, continued to expand its product offering, as indicated in the Message to Shareholders. As one independent research study observed: "Carson-Dellosa is the industry leader in keeping products current. They go to great lengths to assure that their products are the best in quality and design. On a scale of 1 to 10, Carson-Dellosa is a 12!".

During 2001, Carson-Dellosa re-designed its website, which averaged over 1,000 viewers or "hits" daily. The site enables customers to view products, request catalogues and track their orders on-line.

Carson-Dellosa is poised for another great year in 2002. It has another slate of promising new product offerings in the

TeleTOON Canada Inc. (C$ in thousands)

	Years Ended August 31,			
	1998	1999	2000	2001
Revenue	$12,391	$32,846	$40,629	$49,094
EBITDA	3,274	13,212	16,402	19,948
Pre-tax Profit	2,398	11,710	14,845	18,349
Net Income	1,319	6,433	8,303	10,458




CINAR EDUCATION COMPANIES
SELL TO MILLIONS OF
TEACHERS IN AMERICA



pipeline and has strengthened its product development team with the addition of Sherrie Flora, formerly vice president of publishing and new-product development at one of Carson-Dellosa's closest competitors. In her new role as Publisher at Carson-Dellosa, Ms. Flora brings to the group not only her own strong background in product development but also an experienced team of people.

HighReach Learning

Although not immune to the economic slowdown, HighReach Learning, Inc. (HRL) also had a successful 2001, posting increased sales for its curriculum and teacher-resource product lines.

Following a comprehensive customer survey and market assessment, each curriculum in the HighReach product portfolio was re-developed from the bottom up for fall 2001. This ambitious "reinvention" of the HRL curricula spawned the unit's "best-ever" product offerings and helped it sustain its competitive advantage in the marketplace.

Another major initiative of 2001 entailed the completion of a comprehensive "*Study of the Effectiveness of the HighReach Learning Curriculum*." This research project, conducted by Sinclair Consulting, encompassed more than 350 children at 16 different sites in 7 states. The predominantly four-year-old students were assessed using two widely recognized "normalized instruments". Results were impressive, with the average class gain for children using the HRL curriculum being 36 percentile points, in physical, emotional and intellectual maturational growth. Further, the HRL classes showed 10 standard point gains on the Woodcock-Johnson Tests of Achievement. This indicates that HRL students are developing effective "emergent literacy" readiness skills. The full study may be found on our web site at www.highreach.com.

Ten new books were added to HRL's award-winning *Learning Fun for Little Ones* series, bringing the total to 17 books. This series, which captured *Learning Magazine's* 2001 Teachers' Choice Award in the early-childhood category, is distributed through Carson-Dellosa's teacher-stores channel as well as directly by HRL. Another new product of note was the *Letters in My World* booklet, which was added to our teacher-resource product line.

Fiscal 2001 also marked HRL's introduction of on-site training for day-care staff. Initial results look promising. Ten ses-

(Top) Employees of Carson-Dellosa Publishing, located in Greensboro, North Carolina and employees of HighReach Learning facility in Arden, North Carolina (below)







sions were conducted and more than 600 daycare professionals received training. The results will be studied closely for potential addition to our strategic plans for 2002-2003.

HRL closed out the year by signing a key early-childhood client, Primrose School Franchising, to an exclusive contract for age-appropriate curricula. Primrose currently has a total of more than 100 daycare centers, located in 12 states.

Twin Sisters Productions

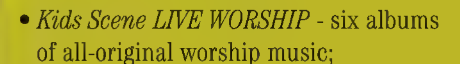
During 2001 Twin Sisters produced 18 new albums totaling more than 120 new product SKUs, utilizing its talented in-house team of professional writers, graphic designers and production managers. Twin Sisters products continue to garner the *National Parenting Seal of Approval* and the *Parent's Choice Approval*, as indicated in the Message to Shareholders.





In addition, key new-product initiatives from Twin Sisters during fiscal 2001 included:

- Music CD Greeting Cards - 13 original designs for Twin Sisters Productions owning product line as well as several exclusive card designs and/or albums for national accounts;
- Preschool Songs For Learning Series - six new albums: *Songs for Rest Time, Songs for Silly Time, Songs for Learning, More Songs for Learning, Songs for Play Time*, and *Songs for Traveling*;
- Eighteen Music CD Book Sets - redesigned and re-released in an award-winning educational series;
- *Bernie*'s CD-R Wraps - six contemporary designs introduced to the educational market;
- *Kids Scene LIVE WORSHIP* - six albums of all-original worship music;
- *Celebrate America* - extraordinary vocal and orchestral arrangements of time-honored patriotic favorites, for release in spring 2002; and
- Expanded web marketing - which entailed strategic monthly and weekly promotions as well as redesign of the Twinsisters.com website.



As of November 30, 2001, the Company still faced a number of outstanding legal claims, which are referred to in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD & A).

(Top) Employees of HighReach Learning's Head office in Charlotte, North Carolina and employees of Twin Sisters Productions, located in Akron, Ohio.(left)

CINAR LIBRARY

As of November 30, 2001

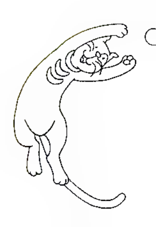
TITLE	Total # of Episodes to Date	Total 1/2-hrs in Library	Year Delivered
CINAR - ANIMATION			
Adventures of Paddington Bear	39	39	1997-1999
Albert the Fifth Musketeer	26	26	1993-1994
Animal Crackers	39	39	1997-2000
Arthur	95	95	1995-2001
Arthur Holiday Special	2	2	2000
Babaloos	26	26	1995-1998
The Baskervilles	26	26	2000
A Bunch of Munsch	7	7	1992
Busy World of Richard Scarry (The)	65	65	1995-1997
Caillou	62	62	1997-2001
Cat Tales	15	15	1993-1994
C.L.Y.D.E.	26	26	1990-1991
Country Mouse and The City Mouse Adv.	52	52	1996-1999
Doctor Xargle	13	13	1997
Flight Squad	26	26	2000
A Gift of Munsch	1	1	1993
Ivanhoe, the King's Knight	52	52	1996-1998
Journey to the West	26	26	2000
Journey to the West (Feature)	4	4	2001
Legend of White Fang (The)	26	26	1992-1993
Little Lulu Show (The)	52	52	1995-1999
Madeline	6	6	1990-1991
Miss Mallard Mysteries	26	26	2000-2001
Mona the Vampire	43	43	1999-2001
Nighthood	26	26	1995-1996
MumbleBumble	65	16	1998-2000
Papa Beaver Storytime	39	39	1994-2000
Patrouille 03	26	26	1998-1999
Real Story (The)	13	13	1998-1992
Robinson Sucroë	26	26	1994
Ripley's Believe it or Not	26	26	1999-2000
Stop the Smoggies	52	52	1988-1991
Treasure	13	13	2000-2001
The Twins	13	13	2000-2001
Upstairs Downstairs Bears	13	13	2000-2001
The Wombles (new series)	144	26	1998-2000
Wonderful Wizard of Oz	60	60	1987-1990
Young Robin Hood	26	26	1992
CINAR - LIVE ACTION SERIES			
Are You Afraid of the Dark?	91	91	1991-2000
Chris Cross	13	13	1990-1991
Emily of New Moon	46	92	1997-2000
Energy	1	1	1993
Happy Castle	13	13	1988
Intrepids (The)	26	26	1991
Kids Discover the World	2	2	1999
Lassie	52	52	1996-1998
Mystery Files of Shelby Woo	20	20	1998-1999
New Adventures of the Intrepids (The)	26	26	1994



TITLE	Total # of Episodes to Date	Total 1/2-hrs in Library	Year Delivered
Return of the Secret Garden	3	3	2000
Sci Squad	13	13	1998-1999
Space Cases	27	27	1995-1997
Wimzie's House	112	112	1995-1997
Zoboomafoo	65	65	2000-2001
CINAR - LIVE ACTION FAMILY FILMS			
Best Bad Thing	1	3	1997
Bonjour Timothy	1	3	1995
Both Sides Of The Law	1	3	2001
Ghosts of Dicken's Past (The)	1	3	1998
Hiver de Tourmente	1	3	1998
Marilyn Bell	1	3	1999
Penny Promise	1	3	2001
Sally Marshall in Not an Alien	1	3	1998
Stand-In for Danger	1	1	1990
Who Gets the House	1	3	1999
Whole of the Moon	1	3	1995
CINAR - LIVE ACTION MINI-SERIES			
Making of Million Dollar Babies (The)	1	1	1994
Million Dollar Babies	2	6	1994
Revenge of the Land	2	8	1999
Sleep Room (The)	2	8	1997
FILMFAIR CATALOGUE			
Astrofarm	53	25	1992-1996
Bangers & Mash	25	6	1989
Blunders (The)	30	7	1984
Brown Bear's Wedding	1	1	1991
Dirty Beasts and Revolting Rhymes	2	2	1988
Gingerbread Man	13	6	1992
Hattytown	39	19	1971
Herbs (The)	13	6	1968
Huxley Pig (HUX-1-2)	26	13	1989
Juniper Jungle	13	6	1993
Moschops (The)	13	6	1983
Nellie the Elephant	30	7	1991
New Shoe People	26	13	1990
Paddington Bear	59	17	1976-1986
Parsley the Lion	32	8	1970
Perishers (The)	20	5	1979
Portland Bill	75	24	1984-1989
Rod n' Emu	13	6	1990
Shoe People (The)	26	6	1990
Simon in the Land of the Chalk Drawings	26	6	1985
Treasure Island	13	13	1993
White Bear's Secret	1	1	1992
Windfalls (The)	26	6	1988
Wombles (The) (1973 - 24 1/2 hours)	144	24	1973
LEUCADIA CATALOGUE			
Address Unknown	1	3	1990
Alan and Naomi	1	3	1990
Breaking Free	1	3	1994
Coyote Summer	1	3	1995
Goodbye Bird (The)	1	3	1992
Just in Time	1	3	1996
Just Like Dad	1	3	1994
Paper Brigade	1	3	1995
Undercover Kid	1	3	1994
Windrunner	1	3	1993
Wish Upon a Star	1	3	1996
Witching of Ben Wagner	1	3	1989

TITLE	Total # of Episodes to Date	Total 1/2-hrs in Library	Year Delivered
BONNEVILLE CATALOGUE			
African Journey	3	6	1989
Almost Partners	1	2	1985
And the Children Shall Lead	1	2	1984
Anne of Avonlea	4	8	1986
Anne of Green Gables	4	8	1985
Back to Hannibal	1	3	1990
Boy Who Loved Trolls (The)	1	2	1984
Bridge to Terabithia	1	2	1984
Brother Future	1	4	1990
Caddie Woodlawn	2	4	1988
Canterville Ghost (The)	1	2	1985
Chronicles of Narnia - Series 1	3	6	1988
Chronicles of Narnia - Series 2	3	6	1989
Chronicles of Narnia - Series 3	2	6	1990
Cityboy	1	4	1992
Clowning Around - Series 1	1	6	1990
Clowning Around - Series 2	1	6	1992
Daniel and the Towers	1	2	1986
Danny, Champion of the World	1	3.5	1989
Fig Tree	1	2	1987
Frog - Series 1	1	2	1987
Frogs!	1	4	1991
Girl of the Limberlost (The)	1	4	1989
Gryphon	1	2	1988
Happily Ever After	1	2	1984
Haunting of Barner Palmer (The)	1	2	1986
Hector's Bunyip	1	2	1986
Hiroshima Maiden	1	2	1987
Hoboken Chicken Emergency (The)	1	2	1984
Home at Last	1	2	1987
House of Dies Drear	2	4	1984
How to be a Perfect Person	1	2	1983
Jacob Have I Loved	1	2	1988
Jane of Lantern Hill	1	4	1988
Konrad	2	4	1984
Last Warhorse	1	3.5	1987
Little Princess (The)	3	6	1986
Lone Star Kid (The)	1	2	1985
Looking for Miracles	1	4	1988
Maricela	1	2	1985
Mighty Pawns (The)	1	2	1986
Mirale Down Under	2	4	1985
Miracle at Moreaux	1	2	1986
My Friend Walter	1	3	1991
Necessary Parties	2	4	1988
Runaway	1	2	1988
Seal Morning	6	6	1984
Spirit Rider	1	4	1992
Sweet 15	2	4	1989
Taking Care of Terrific	1	2	1987
Traitor in My House	1	2	1989
Two Daddies ?	1	2	1989
Walking on Air	1	2	1986
Waltz Through the Hills	2	4	1987
Words by Heart	2	4	1984
You Must Remember This	1	4	1991
Young Charlie Chaplin	3	6.5	1988
Total		**2208.5**	

Some of the titles have been co-produced with partners. CINAR's distribution rights and ownership entitlements vary from title to title.



CORPORATE INFORMATION

Management & Directors

SENIOR MANAGEMENT

Barrie Usher
President & Chief Executive Officer (CEO)

George Rossi
Senior Vice-President and CFO

Stephen T. Carson
President, CINAR Education
President, Carson-Dellosa Publishing

Patricia L. Carson
Vice-President, Carson-Dellosa Publishing

Lucy Caterina
Corporate Controller and Assistant-Secretary

Mark Chernin
Vice-President, Business and Legal affairs

Janet B. Dellosa
Vice-President, Carson-Dellosa Publishing

Kelly A. Elwood
Vice-President, Licensing
and Merchandising

Louis Fournier
Head, Distribution

Jean Gauvin
Vice-President, CINAR Design Group

Jeffrey Gerstein
Vice-President, Taxation

Karen Mitzo Hilderbrand
Chief Executive Officer (CEO),
Twin Sisters Productions

Kathy H. Kelley
Vice-President, HighReach Learning

Michael G. Mayberry
President, HighReach Learning

Sharon H. Mayberry
Vice-President, HighReach Learning

Andrew Porporino
Executive Vice-President and
Chief Financial Officer,
CINAR Entertainment

Louise Sansregret
Vice-President, Corporate Affairs

Lesley Taylor
Executive Vice-President, Production
CINAR Entertainment

Kim Mitzo Thompson
President, Twin Sisters Productions

Daniel Tierney
Vice-President, Business Development

BOARD OF DIRECTORS

Lawrence P. Yelin
Chairman of the Board and
Partner, Fasken Martineau Dumoulin LLP

Barrie Usher
President & Chief Executive Officer (CEO)

Hon. Jack Austin, P.C. Q.C.
Member of the Senate of Canada

Pierre H. Lessard
President and CEO, Metro Inc.

Ray McManus
Chairman & CEO,
CAFA Financial Corporation

Stephen Reitman
Executive Vice-President,
Reitmans (Canada) Ltd.

STOCK INFORMATION

Number of shares outstanding
as of November 30, 2001:
Variable Multiple Voting
(Class A) Shares : 5,233,402
Limited Voting
(Class B) Shares : 35,750,568

STOCK TRANSFER AGENT

Computershare Trust Company of Canada
1800 McGill College Avenue
Montreal (Quebec) H3A 3K9
Tel.: 514-982-7850 Fax.: 514-982-7580

AUDITORS

Richter, Usher & Vineberg

Vous pouvez obtenir la version française du rapport annuel en communiquant avec la Société:

Corporation CINAR
1055, boul. René-Lévesque Est
Montréal (Québec) H2L 4S5
Tél: (514) 843-7070 Fax: (514) 843-7080
www.cinar.com

MANAGEMENT DISCUSSION

Management Discussion and Analysis of Selected Financial Information

The following comments on the financial situation and results of operations of CINAR Corporation (the "Company") should be read in conjunction with the Company's audited financial statements for the year ended November 30, 2001.

The Company has been unable to issue audited financial statements for the years ended November 30, 2000 and 1999 and for its restated financial results for the year ended November 30, 1998 and prior periods. Management cannot provide the required representations regarding the Company's financial results for these periods. Accordingly, the reader is cautioned that the financial statements presented for the above-noted periods are unaudited and no comparison should be made between the Company's financial results for the year ended November 30, 2001 and these prior periods.

During the past two years, the Company has been impacted by several significant issues, which have adversely affected the financial performance and operations of the Company. These include:

(a) The Company had made certain improper claims for government incentives, which have been subsequently disallowed by both the Canadian and Provincial authorities. During 2000, the Company reached an agreement with the tax authorities in both the Canadian and Provincial tax jurisdictions, under which the Company agreed to repay amounts inappropriately received, with interest and penalties, and to withdraw outstanding applications that had been inappropriately filed.

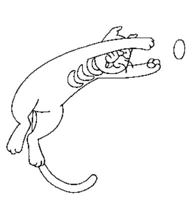
(b) Certain transactions between the Company and certain directors and former officers of the Company and entities controlled by these individuals were improperly recorded and not disclosed by the Company in its previously reported results for the year ended November 30, 1998 and prior periods. The Company has restated its past financial statements to reflect and disclose these amounts to the extent that these activities were discovered by the Company's current management.

(c) Prior to March 6, 2000, US$122 million had been invested with Globe-X Management Limited ("Globe-X"), a Bahamian investment company, without the knowledge or authorization of the Company's Board of Directors. As a result of the nature of the unauthorized investments, the Company has been unable to recover all of the invested funds, as at the date of the November 30, 2001 financial statements.

(d) As a result of certain accounting policies used by the Company in past reporting periods, material adjustments were required in order to prepare the Company's financial statements and to fairly present the operations and financial position of the Company in accordance with GAAP.

(e) Concurrent with the public disclosure of the unauthorized investments and undisclosed related party transactions discussed above, trading in the Company's securities was halted on both the Toronto Stock Exchange and the NASDAQ National Market. The Company's securities have since been delisted by both the Toronto Stock Exchange and the NASDAQ National Market.

(f) As a result of the issues discussed above, numerous lawsuits have been brought against the Company in both Canada and the United States. These claims are still pending, as at the date of these financial statements, and if the Company is unsuccessful in defending these claims, the outcome could have a material effect on the Company's financial statements and the analysis that follows.



Based on the issues outlined above, the Company's current management faced many complex accounting issues and was required to record significant adjustments to the financial information reported by the Company in prior periods. The most significant of these adjustments include the following:

[In thousands of Canadian dollars]	Cumulative net earnings impact to November 30, 2000 $
Allowance for amounts due from Globe-X Management Limited	**$60,669**
Adoption of FASB 53 and related film cost write-offs	**$96,002**
Write-down of acquired film libraries, net of reduced annual amortization	**$11,238**
Allowance for amounts due from certain directors and former officers of the Company and entities controlled by these individuals	**$29,267**
Write-down of investment in Lightspan	**$30,905**
Write-down of investment in CINAR Multimedia	**$45,740**
Reversal of inappropriate tax credit applications, including interest and penalties and other subsidies	**$24,904**
Increase in allowance for doubtful accounts from November 30, 1998 to November 30, 2000	**$14,288**

The table above highlights the retained earnings impact of these amounts to November 30, 2000. In some cases, additional adjustments have been made during 2001 in relation to these amounts. Refer to the discussion of the Company's 2001 results of operations, included below, for further information on any 2001 adjustments.

The Company's business is organized into two operating divisions: CINAR Entertainment and CINAR Education. CINAR Entertainment develops, produces, markets and distributes high quality, non-violent programming in over 150 countries. It is also involved in the exploitation of the ancillary rights to its properties including music, video and merchandising rights. CINAR Education develops, produces, markets and distributes supplemental education products for children, families and educators, primarily in North America.

During 2001, the Company decided to dispose of its interest in CINAR Multimedia, a producer and distributor of educational multimedia products and anticipates that the process of disposing of this business will be completed during 2002. CINAR Multimedia has been presented as a discontinued operation for the purposes of the 2001 financial statements and is excluded from the figures and analysis presented below (see loss from discontinued operations as discussed below).

CINAR Entertainment has significantly reduced its slate of new productions during 2001, largely as a result of poor market conditions and its unwillingness to support a large production slate through high levels of deficit financing. Management has attempted to preserve the Company's cash through a selective production slate. The Company downsized its entertainment and corporate head office operations during 2001. In addition, in early 2002, the Company closed its London, England and Shannon, Ireland offices, further reducing costs within its Entertainment division.

CINAR Education was formed in July 1997, with the Company's acquisition of the Carson-Dellosa Publishing Group, a publisher and distributor of specialty supplies and classroom instructional materials for the K-8 supplemental education products market. In June 1998, the Company added HighReach Learning, a supplier of early childhood education products for children aged 16 months to five years. In February 2000, the Company acquired Twin Sisters Productions, a developer and distributor of high quality audio products designed to provide children with an alternative way to learn. As a result of these acquisitions and the continued expansion of these acquired businesses, the Company has seen its Education division grow to become the larger component within its overall operations.

CINAR Entertainment earns revenues from the production and distribution of new programming, as well as from library sales. A portion of its revenues derived from new production represents government funding, including tax incentives. For the year ended November 30, 2001, revenues derived from government funding represented 3.8% of the Company's total revenues. The Company, having added an additional 94 half-hour equivalents of new programming during 2001, has increased its film library to over 160 titles and over 2,200 half-hours of programming, as at November 30, 2001. Library sales represent revenues earned on programming which has been initially released in a prior period. Library sales are primarily earned from the sale of television rights to the

Company's programming, but also include revenues earned from the licensing of merchandising, music, video and publishing rights to the Company's film properties. Over the past several years the Company has increased its efforts to exploit these ancillary rights, as evidenced by the fact that revenues derived from these sources represented 35.8% of library revenues during 2001. CINAR Education earns revenues from the sale of supplemental education and specialty products and derives its revenues primarily from the US market. CINAR Education has continued to achieve historical highs for both revenues and EBITDA, despite the significant issues that have adversely impacted the Company.

Cost of sales at CINAR Entertainment includes the amortization of the CINAR-produced film library and the direct costs of distribution and exploitation of these programs, including financial partners' share of revenues. CINAR Education's cost of sales includes all direct and indirect labor and materials used in the production of its products.

Results of operations for CINAR Entertainment during any period are significantly dependant on the number and timing of television programs being completed or made available to various media. In addition, the gross profit realized on each program can vary significantly depending on the total revenues earned by a production, which are determined by the marketplace, the Company's share of total revenues, which is negotiated with its co-producers and financial partners, and the cost to produce a program. Consequently the results of operations may fluctuate materially from period-to-period and the results of one period are not necessarily indicative of the results of future periods.

The Company's revenues from international sources are customarily paid in US dollars and as such may be affected by fluctuations in the exchange rate of the US dollar. Currency exchange rates may vary substantially during various reporting periods and can materially affect the Company's reported results.

RESTATEMENT OF PRIOR PERIOD FINANCIAL INFORMATION

During 2001, the Company restated its financial information for prior periods from amounts previously reported. These restatements were undertaken to give effect to the following adjustments:

During 2001, the Company reconstructed its film costs balance based on the adoption of Financial Accounting Standards Board No.53 ("FASB 53"). This involved a detailed review of the Company's amortization policy for film costs, as well as the reclassification of previously capitalized film costs as period costs. As a result of this analysis, the Company increased its reported net loss by $8.4 million in 2000, $15.4 million in 1999 and reduced its retained earnings balance as at December 1, 1998 by $31.5 million. In addition, the Company re-allocated its $40.7 million film costs write-off, previously reported in 1999 as an unusual item, as a $4.8 million charge to cost of sales in 1999, with the balance being accounted for as a $35.9 million reduction of its December 1, 1998 retained earnings balance.

In addition, the Company recorded a one-time write-down of its acquired film libraries and revised its amortization period for its acquired film libraries from 20 years to 10 years from their dates of acquisition. These adjustments resulted in the Company recording reduced annual amortization charges from amounts previously reported. The Company further adjusted the acquired film libraries to account for the sale of a portion of certain acquired film libraries to a co-production partner. These adjustments resulted in the Company reducing its reported net loss in 2000 by $0.5 million, increasing its reported net loss in 1999 by $0.1 million and reducing its December 1, 1998 retained earnings balance by $12.4 million.

During 2001, the Company discovered errors in conjunction with its accounting for certain government production investments and license fee supplements. Accordingly, the Company restated past revenues, including the reversal of certain revenues recognized in prior periods and recognizing other revenues that previously had been deferred. These adjustments resulted in the Company decreasing its reported net loss in 2000 by $1.4 million, increasing its reported net loss by $1.6 million in 1999 and reducing its December 1, 1998 retained earnings balance by $0.9 million.

During 2001, the Company determined that it had improperly calculated its co-producers' and financial partners' share of revenues earned in prior periods. The Company increased its reported net loss in 1999 by $2.7 million to reflect the impact of these obligations. These adjustments did not affect any other prior periods.

In addition, the Company reallocated a reserve for uncollectible amounts from 2000 to 1999, resulting in the Company reducing its reported net loss in 2000 by $1.0 million and increasing its reported net loss for 1999 by the same amount.

As at November 30, 2000, the Company had recorded the value of certain income tax credits that had accrued to the Company

during 2000 and 1999. During 2001, the Company determined that it was unlikely that it would benefit from these income tax credits due to its continued losses. The Company increased its net loss by $1.3 million in 2000 and $1.0 million in 1999 to reflect the write-off of these income tax credits.

The Company also reclassified certain items within its 2000 and 1999 balance sheets and statements of operations to conform to the basis of presentation used in 2001. These reclassifications affected amounts previously reported as marketable securities and short-term money market investments, amounts due from Globe-X Management Limited, related party receivables, income taxes receivable and future income taxes, as well as the reclassification of amounts reported in the Company's statements of operations, relating to CINAR Multimedia, as discontinued operations. These adjustments did not affect the Company's reported loss in any prior period.

RESULTS OF OPERATIONS FOR THE YEAR ENDED NOVEMBER 30, 2001

Revenues during 2001 totaled $131.7 million, with $45.3 million or 34.4% of these revenues relating to CINAR Entertainment and $86.4 million or 65.6% of these revenues relating to CINAR Education.

Revenues in CINAR Entertainment were made up of $18.5 million of revenues from current production activities, $25.1 million of revenues derived from the Company's existing film library and $1.7 million of interest.

The Company's new production revenues resulted largely from the delivery of new programming during 2001. This included the delivery of eight television series: *Arthur®, Caillou®, Mona the Vampire™, Miss Mallard Mysteries™, Treasure™, The Twins™, Upstairs Downstairs Bears™* and *Zoboomafoo®*. In addition, the Company delivered one animated feature, *Legend of the Monkey King™*. This slate of new productions is significantly smaller than those produced by the Company in recent years and is indicative of the Company's increased selectivity within its production business. Included in its production revenues are $5.1 million of government incentive revenues earned under Canadian and Provincial production and production service tax credit programs.

As at November 30, 2001, the Company is in production on four animated television series and one animated special.

Within its library sales, the Company earned revenues from international sources, with the most significant portion of these revenues being earned within North America and Western Europe. Through the exploitation of its film properties, the Company earned revenues of $3.6 million, $2.5 million and $2.9 million from merchandising rights, music rights and video rights, respectively. These amounts are included in the Company's library revenues, with the $16.1 million balance of library revenues being earned from the sale of television rights to the Company's film properties.

The $1.7 million of interest revenues earned in 2001 reflect interest earned on the Company's short-term investment instruments. This amount excludes any interest payable by Globe-X Management Limited under the terms of its agreement with the Company, due to the uncertainty surrounding the collectibility of these amounts. Any interest received from Globe-X will be recorded as revenue in the period in which it is received.

Revenues from CINAR Education reached $86.4 million during 2001, the highest level in the Company's history. This can be attributed to the continued expansion of each of CINAR Education's component businesses. CINAR Education has been largely unaffected by the developments that have surrounded the Company, and its US-based operations have continued to grow without impediment.

Consolidated cost of sales was $79.2 million in 2001, resulting in a consolidated gross profit of $50.8 million or 39.1%, excluding the impact of interest revenues. Cost of sales in CINAR Entertainment was $39.1 million, resulting in a gross profit of $4.5 million or 10.3%, excluding the impact of interest revenues. Cost of sales in CINAR Entertainment included the impact of foreign exchange gains totaling $4.6 million. The low gross margin experienced by CINAR Entertainment during 2001 can be attributed mainly to the Company's difficulties in securing adequate financial partner contributions on its productions and its lack of visibility on future production and library revenues. These two factors have resulted in the accelerated amortization and write-off of the Company's film costs during 2001, due to the decreased revenue potential projected by management for its film library. In addition, the Company experienced a high level of distribution expenditures in 2001, which further reduced its gross margin. Cost of sales in CINAR Education was $40.1 million in 2001, resulting in a gross profit of $46.3 million or 53.6%. These gross margins are characteristic of CINAR Education, which has historically earned gross margins in excess of 50%. The maintenance of its historical gross margin levels is further evidence of the continued success of CINAR Education and its ability to continue its business uninterrupted by the events that have surrounded the Company.

Selling, general and administrative expenses were $49.1 million in 2001, with $18.2 million of these expenses pertaining to CINAR Entertainment and $30.9 million having been incurred in CINAR Education. These levels of selling, general and administrative expenses are in line with historical levels for each of the divisions, but represent a higher percentage of sales, on a consolidated basis, due to the increased impact of CINAR Education, which incurs higher levels of SG&A.

Amortization of acquired film libraries was $1.1 million in 2001. This amount reflects the reduced carrying value of the acquired film libraries resulting from the prior period write-down and from the sale of an interest in certain acquired film properties to a co-production partner, as well as, the reduction of the amortization period for the acquired film libraries from 20 years to 10 years.

Amortization of fixed assets totaled $2.9 million in 2001 and is in line with amounts reported in prior periods.

Amortization of goodwill was $3.5 million in 2001 and reflects a reduced annual goodwill charge resulting from the 2001 write-off of the remaining balance of the goodwill arising from the Twin Sisters transaction. For a further explanation of this write-off of goodwill, refer to the discussion of unusual items included below.

Interest expense totaled $2.9 million in 2001 and is mainly due to the interest payable on the Company's term debt. During 2001, this term credit facility was repaid in full and the Company currently has no borrowing facilities at its disposal.

During 2001, the Company experienced a number of unusual items that, in the aggregate, resulted in non-recurring charges of $23.9 million on the Company's November 30, 2001 statement of operations. The details of these unusual items are as follows:

In February 2000, the Company acquired 100% of Twin Sisters, an Ohio-based developer, producer and distributor of high-quality children's audio products. During 2001, Twin Sisters experienced operating losses, and accordingly, the balance of the goodwill associated with the acquisition could no longer be justified. The Company has recorded a non-cash charge of $13.7 million in 2001 to write-off the balance of the goodwill relating to the acquisition of Twin Sisters.

During 2001 and early 2002, in an effort to restructure the operations of its Entertainment division and its corporate head office, the Company undertook a downsizing in its Montreal, London and Ireland-based operations. This included a reduction in the Company's workforce, as well as the closure of several of the Company's operating locations. During 2001, the Company accrued $9.8 million relating to salaries, severance costs and employee benefits, certain future rental costs relating to premises that are no longer in use and professional fees relating to the restructuring.

During 2001, the Company continued to engage the services of external legal and financial advisors to assist the Company and its Board of Directors in performing investigations into certain issues relating to tax incentives, previously undisclosed related party transactions and certain unauthorized transactions discovered in the financial records of the Company, as well as to defend the Company against various lawsuits and to assist it in pursuing a potential sale of the Company. For the year ended November 30, 2001, the Company incurred $5.3 million of professional fees in conjunction with these activities.

In November 2001, the Company reached an agreement with Telefilm Canada ("Telefilm") to repay certain amounts received under funding programs administered by Telefilm, related to the Canadian Audio Visual Certification Office de-certification of certain productions. In conjunction with this agreement, the Company agreed to pay $1.0 million in interest and penalties relating to such funding received. The Company has accrued an additional $1.1 million in interest and penalties to account for the potential reassessment of the Company's previously filed corporate tax returns by the Canadian and Provincial tax authorities.

During 1999, as a result of the uncertainty surrounding the collection of amounts invested with Globe-X Management Limited, the Company provided for the entire $63.0 million outstanding as at the date of the 1999 financial information. Subsequent thereto, the Company recovered certain amounts from Globe-X, relating to the amounts previously reserved for. During 2001, the Company recovered $6.8 million of its funds invested with Globe-X and has recorded this amount as a recovery against such previous provisions.

Subsequent to the removal of the Company's senior management in March 2000, the Company determined that there existed previously undisclosed related party transactions between the Company and certain directors and former officers of the Company and entities controlled by these individuals. Due to the uncertainty regarding the collection of these amounts, the Company provided for the full amount receivable from these individuals and entities in its 1999 financial information. As a result of changes in foreign exchange rates, the amounts receivable have fluctuated in subsequent reporting periods. In 2001, the Company recorded a $0.1 million recovery of amounts previously reserved for, to account for these fluctuations in foreign exchange rates.

The Company's share of earnings from its 20% equity investment in Teletoon was $2.1 million during 2001. This can be attributed to the continued success of the specialty animation channel, which achieved record levels of revenues and earnings in its most recently completed year.

The Company recorded a provision for income taxes of $3.4 million for the year ended November 30, 2001. The Company recorded a tax provision despite its net loss before income taxes of $28.7 million, mainly as a result of net income earned in its US-based Education division and unrecoverable withholding taxes payable in foreign jurisdictions on its entertainment revenues.

As discussed above, during 2001 the Company decided to divest of its interest in CINAR Multimedia. Accordingly, the Company has re-classified CINAR Multimedia as a discontinued operation and has recorded a loss from discontinued operations of $9.9 million for the year ended November 30, 2001. This loss from discontinued operations includes a $5.3 million loss from the operations of CINAR Multimedia during 2001, as well as a $4.6 million loss related to the write-off of the remaining net assets of the Multimedia division and all closing costs related to terminating its operations. The Company anticipates that the disposal of CINAR Multimedia will be completed during 2002.

The Company recorded a net loss of $42.0 million ($1.02 per share) for the year ended November 30, 2001, including the impact of the loss from discontinued operations. The loss from continuing operations during 2001 was $32.1 million ($0.78 per share) and excludes the impact of CINAR Multimedia on the financial results of the Company. The loss per share was calculated based on a weighted average number of shares of 41.0 million.

FINANCIAL POSITION AS AT NOVEMBER 30, 2001

As at November 30, 2001, the Company had $12.1 million in cash and $35.5 million in short-term investments, excluding amounts due from Globe-X Management Limited.

During 2001, despite a net loss of $42.0 million, the Company generated $20.6 million of cash from operations, mainly through the careful management of its working capital. The Company generated an additional $28.1 million of cash during 2001 through the monetization of a portion of its short-term money market investments. The main use of cash by the Company during 2001 was the repayment of its $39.9 million term credit facility in October 2001.

As at November 30, 2001, the Company had amounts due from Globe-X Management Limited of $59.4 million and amounts due from directors and former officers of the Company and entities controlled by these individuals totaling $29.2 million. The Company has recorded a provision against these amounts of $58.0 million and $29.2 million, respectively, to reflect the uncertainty regarding the collection of these receivables.

The Company has $25.2 million of tax credits receivable and $19.5 million of income taxes receivable as at November 30, 2001. While the Company believes that, to the best of its knowledge, these amounts are correct as filed, a significant portion of these claims have not yet been assessed by the relevant tax authorities and remain subject to future tax reviews.

OUTLOOK

We believe that on the Entertainment side, the market for new children's programming will continue to be difficult. Thus, we will continue to adopt a conservative production strategy to focus on sustaining key brands by moving forward with new episodes of *Caillou®*, *Arthur®* and *Mona the Vampire™*. In addition, our restructuring efforts undertaken in 2001 should assist us in significantly reducing our losses from Entertainment in 2002.

On the Education front, all indications are that the growth in revenue and EBITDA will continue for 2002.

George Rossi
Senior Vice-President and CFO

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of CINAR Corporation and financial information contained in this Annual Report are the responsibility of management. This responsibility is based on a judicious choice of accounting procedures and principles, the application of which requires the informed judgment of management. The consolidated financial statements were prepared according to generally accepted accounting principles in Canada and were approved by the Board of Directors. In addition, the financial information included in the Annual Report is consistent with that in the consolidated financial statements.

CINAR Corporation maintains accounting and administrative control systems which, in the opinion of management, ensure reasonable accuracy, relevance and reliability of financial information and well-ordered, efficient management of the Company's affairs.

The Board of Directors is responsible for approving the consolidated financial statements included in the Annual Report, primarily through its Audit Committee. This Committee, which holds periodic meetings with members of management as well as external auditors, reviewed the consolidated financial statements of CINAR Corporation and recommended their approval to the Board of Directors.

The enclosed consolidated financial statements were audited by Richter, Usher & Vineberg, Chartered Accountants, and their report indicates the extent of their audit and their opinion on the consolidated financial statements.

Barrie Usher
President and CEO

George Rossi, CA
Senior Vice-President and CFO

Montreal, Canada
March 8, 2002

AUDITORS' REPORT

To the shareholders of CINAR Corporation

We have audited the consolidated balance sheet of CINAR Corporation as at November 30, 2001 and the consolidated statements of operations, deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

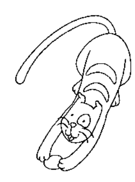
We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements for the prior years, presented herein for comparative and information purposes only, were not audited and accordingly, we express no opinion thereon.

Richter, Usher & Vineberg
General Partnership
Chartered Accountants

Montreal, Canada
March 8, 2002



CONSOLIDATED BALANCE SHEET

As at November 30
[In thousands of Canadian dollars]

	2001 $	2000 [Unaudited] Restated (See Note 1) $	2000 [Unaudited] Previously Reported $
ASSETS			
Cash	**12,085**	7,154	7,154
Marketable securities and short-term money market investments [note 6]	**35,471**	63,566	63,566
Amounts due from Globe-X Management Limited [net of allowance for uncollectible amounts of $57,966; 2000 - $63,328] [note 7]	**1,454**	2,612	2,612
Accounts receivable [net of allowance for doubtful accounts of $14,472; 2000 - $15,301]	**43,544**	72,139	71,142
Related party receivables [net of allowance for uncollectible amounts of $29,168; 2000 - $29,267] [note 8]	-	-	-
Tax credits receivable	**25,245**	22,014	22,014
Income taxes receivable	**19,465**	15,008	17,335
Inventories [note 9]	**13,290**	14,576	14,576
Film costs [note 10]	**18,414**	26,058	76,156
Acquired film libraries [note 11]	**6,433**	7,504	20,527
Fixed assets [note 12]	**5,642**	8,474	8,474
Goodwill	**92,167**	107,079	107,079
Other assets [note 13]	**6,211**	5,316	5,316
	279,421	351,500	415,951

See accompanying notes

CONSOLIDATED BALANCE SHEET

As at November 30
[In thousands of Canadian dollars]

		2000 [Unaudited]	
	2001 **$**	Restated (See Note 1) $	Previously Reported $
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Accounts payable and accrued liabilities	**56,504**	41,378	33,996
Deferred revenue	**7,127**	14,266	14,266
Future income taxes	**3,417**	2,557	981
Term debt [note 14]	-	39,936	39,936
Total liabilities	**67,048**	98,137	89,179
Shareholders' equity:			
Capital stock [note 15]			
Issued and outstanding			
5,233,402 Variable Multiple Voting (Class A) shares and 35,750,568 Limited Voting (Class B) shares	**501,182**	501,182	501,182
Cumulative translation adjustment	**4,191**	3,158	3,151
Deficit	**(293,000)**	(250,977)	(177,561)
Total shareholders' equity	**212,373**	253,363	326,772
	279,421	351,500	415,951

See accompanying notes



CONSOLIDATED STATEMENT OF DEFICIT

Years ended November 30
[In thousands of Canadian dollars]

	2001	2000 [Unaudited]		1999 [Unaudited]	
	$	Restated (See Note 1) $	Previously Reported $	Restated (See Note 1) $	Previously Reported $
Retained earnings (deficit), beginning of year	**(250,977)**	(188,393)	(121,764)	(42,121)	38,593
Net loss	**(42,023)**	(62,584)	(55,797)	(146,272)	(160,357)
Balance, end of year	**(293,000)**	(250,977)	(177,561)	(188,393)	(121,764)

See accompanying notes

CONSOLIDATED STATEMENT OF OPERATIONS

Years ended November 30
[In thousands of Canadian dollars except per share amounts]

	2001 $	2000 [Unaudited] Restated (See Note 1) $	2000 [Unaudited] Previously Reported $	1999[Unaudited] Restated (See Note 1) $	1999[Unaudited] Previously Reported $
Revenues [note 17]	**131,730**	148,334	146,910	164,461	166,735
Cost of sales	**79,166**	90,964	82,575	131,709	108,815
Gross margin	**52,564**	57,370	64,335	32,752	57,920
Expenses:					
Selling, general and administrative	**49,074**	50,608	52,111	47,987	46,979
Amortization of acquired film libraries	**1,071**	846	1,331	931	1,515
Amortization of fixed assets	**2,921**	2,641	2,641	1,840	1,840
Amortization of goodwill	**3,480**	3,774	3,774	3,501	3,501
Interest	**2,893**	6,423	6,423	3,929	3,929
Unusual items [note 18]	**23,924**	53,794	53,264	69,676	110,402
	83,363	118,086	119,544	127,864	168,166
	(30,799)	(60,716)	(55,209)	(95,112)	(110,246)
Share of net earnings of equity investment	**2,092**	1,445	1,445	1,287	1,287
Loss before income taxes	**(28,707)**	(59,271)	(53,764)	(93,825)	(108,959)
Provision for (recovery of) income taxes [note 19]	**3,390**	574	(706)	3,028	1,979
Net loss from continuing operations	**(32,097)**	(59,845)	(53,058)	(96,853)	(110,938)
Loss from discontinued operations [note 5]	**(9,926)**	(2,739)	(2,739)	(49,419)	(49,419)
Net loss	**(42,023)**	(62,584)	(55,797)	(146,272)	(160,357)
Loss per Variable Multiple Voting (Class A) Share and Limited Voting (Class B) Share [note 20]					
Basic, from continuing operations	**($0.78)**	($1.46)	($1.29)	($2.50)	($2.86)
Basic, from discontinued operations	**($0.24)**	($0.07)	($0.07)	($1.28)	($1.28)
Basic	**($1.02)**	($1.53)	($1.36)	($3.78)	($4.14)
Weighted average number of Variable Multiple Voting (Class A) shares and Limited Voting (Class B) shares outstanding	**40,983,970**	40,982,342		38,751,203	

See accompanying notes



CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended November 30
[In thousands of Canadian dollars]

	2001	2000 [Unaudited]		1999[Unaudited]	
	2001 **$**	Restated (See Note 1) $	Previously Reported $	Restated (See Note 1) $	Previously Reported $
OPERATING ACTIVITIES					
Net loss	**(42,023)**	(62,584)	(55,797)	(146,272)	(160,357)
Items not affecting cash:					
Amortization	**7,472**	7,261	7,746	6,272	6,856
Film costs amortization and write-downs	**22,879**	41,275	30,983	54,303	81,984
Write-off of goodwill	**13,687**	-	-	45,921	45,921
Write-down of acquired film library	-	530	-	-	-
Write-off of net assets of discontinued operations	**10,422**	-	-	-	-
Share of net earnings of equity investment	**(2,092)**	(1,445)	(1,445)	(1,287)	(1,287)
Write-down of investment in Lightspan	-	30,905	30,905	-	-
Gain on sale of investment	**(100)**	-	-	-	-
Increase (decrease) in allowance for Globe-X	**(5,362)**	296	296	63,032	63,032
Future income taxes	**1,018**	298	(1,293)	(2,130)	(2,130)
	5,901	16,536	11,395	19,839	34,019
Decrease (increase) in accounts receivable	**24,855**	(5,373)	(2,661)	25,634	24,351
Decrease (increase) in tax credits receivable	**(3,231)**	9,893	9,893	(5,303)	(5,303)
Increase in income taxes receivable	**(4,457)**	(18,455)	(19,734)	(8,299)	(9,347)
Decrease (increase) in inventories	**1,010**	(1,710)	(1,710)	2,797	(2,797)
Additions to film costs	**(15,235)**	(45,039)	(45,039)	(74,338)	(83,661)
Increase (decrease) in trade payables and accrued liabilities and related party receivables	**18,797**	(8,957)	(7,054)	10,223	9,696
Decrease in deferred revenue	**(7,139)**	(2,225)	(2,225)	(1,561)	(1,561)
Decrease (increase) in other assets	**54**	1,095	1,095	(64)	(64)
Discontinued operations	-	3,070	3,070	(13,224)	(13,224)
Cash provided by (used in) operating activities	**20,555**	(51,165)	(52,970)	(44,296)	(47,891)
FINANCING ACTIVITIES					
Proceeds (repayment) of term debt	**(39,936)**	(10,197)	(10,197)	50,133	50,133
Issue of capital stock	-	308	308	233,695	233,695
Share issue costs	-	-	-	(13,495)	(13,495)
Cash provided by (used in) financing activities	**(39,936)**	(9,889)	(9,889)	270,333	270,333

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS [Continued]

Years ended November 30
[In thousands of Canadian dollars]

	2001 $	2000 [Unaudited] Restated (See Note 1) $	2000 [Unaudited] Previously Reported $	1999[Unaudited] Restated (See Note 1) $	1999[Unaudited] Previously Reported $
INVESTING ACTIVITIES					
Business acquisitions [note 4]	-	(13,491)	(13,491)	(63,120)	(63,120)
Cash acquired (bank indebtedness assumed) on acquisitions [note 4]	-	(972)	(972)	5,796	5,796
Proceeds on sale of business	**305**	-	-	-	-
Sale of rights to Bonneville/Leucadia libraries	-	1,585	3,383	1,998	-
Dividends received from equity investment	**1,090**	860	860	881	881
Decrease (increase) in marketable securities and short-term money market investments	**21,362**	(14,965)	(14,965)	28,508	28,508
Repayments from (advances to) Globe-X	**6,769**	94,575	94,575	(160,515)	(160,515)
Acquisition of film libraries	-	-	-	(5,411)	(5,411)
Increase in investment in Lightspan	-	(15,672)	(15,672)	(18,500)	(18,500)
Additions to fixed assets	**(1,203)**	(2,482)	(2,482)	(2,493)	(2,493)
Cash provided by (used in) investing activities	**28,323**	49,438	51,236	(212,856)	(214,854)
TRANSLATION ADJUSTMENT	**(1,943)**	4,559	4,566	4,702	4,702
Increase (decrease) in cash position	**6,999**	(7,057)	(7,057)	12,290	12,290
Cash position, beginning of year	**5,086**	12,143	12,143	(147)	(147)
Cash position, end of year	**12,085**	5,086	5,086	12,143	12,143
Cash position is comprised of:					
Cash	**12,085**	7,154	7,154	15,323	15,323
Less: cash from discontinued operations	-	(2,068)	(2,068)	(2,411)	(2,411)
bank indebtedness	-	-	-	(769)	(769)
	12,085	5,086	5,086	12,143	12,143
Interest paid	**2,070**	4,667	4,667	3,356	3,356
Income taxes paid	**5,205**	3,183	3,183	13,334	13,334

See accompanying notes



1. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

During 2001, CINAR Corporation ("CINAR" or the "Company") reconstructed its film costs balance based on the adoption of Financial Accounting Standards Board No. 53 ("FASB 53"). This involved a detailed review of the Company's amortization policy for accounting for film costs, as well as the reclassification of previously capitalized film costs as expenses in the period in which they were incurred.

In addition, the Company has recorded a write-down in the value of its acquired film libraries and has revised the amortization period for its acquired film libraries from 20 years to 10 years from the date of acquisition. The revision in accounting policy and the write-down were undertaken to more appropriately reflect the useful life of the film properties acquired and their net recoverable amounts.

During 2001, the Company discovered errors in conjunction with its accounting for certain government production investments and license fee supplements. Consequently, the Company restated past revenues, reversing certain revenues recognized in prior periods and recording other revenues not recognized in prior periods.

During 2001, the Company determined that it had inappropriately accounted for its co-producers' and financial partners' share of revenues earned during prior periods. The Company restated its results reported in prior periods to account for such previously unrecorded amounts.

As at November 30, 2000, the Company had recorded the value of certain income tax credits that had accrued to the Company during 2000 and 1999. During 2001, the Company determined that it was unlikely that the Company would benefit from these income tax credits and has restated amounts reported in prior periods to write off these amounts.

In addition, the Company reallocated a reserve for uncollectible amounts from 2000 to 1999. The cumulative impact of this adjustment on the Company's financial results was not material.

As a result of these adjustments, the Company restated its retained earnings balance as at December 1, 1998 and the amounts previously reported in its unaudited financial information for the years ended November 30, 2000 and 1999. The accounts to which significant adjustments were made in the restatement of previous consolidated financial information are summarized below:

Accounts Receivable

Accounts receivable were decreased by $579,000 at November 30, 2000 to reverse amounts receivable under various production investment and license fee supplement programs for productions that were deemed not to qualify for such funding.

Income Taxes Receivable

Income taxes receivable were decreased by $2,327,000 at November 30, 2000 to reverse the value of certain income tax credits previously recorded by the Company, from which it will derive no future benefits.

Film Costs

Film costs were decreased by $50,098,000 at November 30, 2000 to account for write-downs based on revenue projections, changes in amortization rates for certain film properties and the reclassification of previously capitalized film costs as period costs in accordance with FASB 53. This reduction was attributable to several periods and has been reflected in the Company's statement of operations for 2000 and prior periods principally through an increase in cost of sales.

In addition, the Company reallocated to prior years $35,921,000 of the $40,728,000 write-off of film costs which was previously

1. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS [Continued]

included as an unusual item in 1999. The balance of $4,807,000 was included in cost of sales in the Company's 2000 statement of operations.

Acquired Film Libraries

Acquired film libraries were reduced by $13,023,000 at November 30, 2000 largely as a result of a $15,000,000 write-down of the carrying value of the acquired film libraries and the change in the amortization period of the acquired film libraries from 20 years to 10 years. The acquired film libraries were further reduced to account for the sale of an interest in certain film libraries to a co-production partner. A reduction in the annual amortization charge, as a result of the above, partially offsets the impact of these adjustments.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities were increased by $7,382,000 at November 30, 2000. This was partially due to the accrual for future losses on productions in process for which a permanent impairment was identified. A portion of this increase was attributable to certain production investments and license fee supplements received by the Company in prior periods, which the Company was required to repay during 2001. In addition, this increase was partially attributable to the accrual of co-producers' and financial partners' share of revenues earned in prior periods, which had not been accounted for in previously reported amounts.

Net Loss

The following table reconciles the net loss as previously reported for the years ended November 30, 2000 and 1999 with the restated net loss for such periods. Adjustments affecting the results of operations prior to 1999 resulted in a reduction of $80,714,000 in the balance of retained earnings as at December 1, 1998.

[In thousands]	2000 [Unaudited] $	1999 [Unaudited] $
Net loss as previously reported	(55,797)	(160,357)
Adjustments related to acquired film libraries	(28)	(702)
Increase in cost of sales due to FASB 53 adjustment	(8,389)	(15,362)
Re-allocation of film costs write-off to prior periods	-	35,921
Increase in costs of sales due to accrual of co-producers' and financial partners' share of revenues	-	(2,728)
Reduction in amortization of acquired film libraries	485	584
Adjustments in revenues related to government production investments and license fee supplements	1,424	(1,571)
Re-allocation of allowance for uncollectible amounts to prior periods	1,001	(1,008)
Adjustments related to income taxes	(1,280)	(1,049)
Net loss as restated	(62,584)	(146,272)

Previously Disclosed Restatements

As a result of internal reviews undertaken by the Company prior to the release of its November 30, 1999 unaudited consolidated



1. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS [Continued]

financial information and under the supervision of the Audit Committee, the Company had determined that the previously issued consolidated financial statements required restatement for the following reasons:

- The Company had made certain improper claims for government incentives which were subsequently disallowed by both the Canadian and Provincial governments. These improper claims resulted in misstatements of revenues, cost of sales, income taxes, tax credits receivable, accounts receivable, accounts payable and accrued liabilities, film costs and income taxes receivable. Pursuant to agreements with both the Canadian and Provincial governments, the Company voluntarily disclosed the nature of its improper tax incentive claims and agreed to repay these amounts in full. In addition, as a result thereof, the Canadian and Provincial governments imposed penalties on the Company.

- Certain transactions between the Company and related parties were not properly recorded and disclosed in previous financial statements. As a result, the following items were misstated in previous reporting periods: revenues, cost of sales, selling, general and administrative expenses, amortization of fixed assets, interest expense, unusual items, income taxes, tax credits receivable, film costs, related party receivables, fixed assets, accounts payable and accrued liabilities and income taxes receivable.

- The Company also discovered other unauthorized or incorrectly recorded transactions, which taken in the aggregate, did not have a material effect on the previous financial statements.

The Company restated its previous financial statements to give effect to the misstatements disclosed above. These restatements have been fully reflected in these financial statements through an adjustment to the balance of retained earnings as at December 1, 1998.

2. NATURE OF BUSINESS AND BASIS OF PRESENTATION

The Company's business is organized into two operating divisions: CINAR Entertainment and CINAR Education. CINAR Entertainment develops, produces, markets and distributes high-quality, non-violent programming in over 150 countries. It is also involved in the exploitation of the ancillary rights to its properties including music, video and merchandising rights. CINAR Education develops, produces, markets and distributes supplemental education products for children, families and educators.

During 2001, the Company decided to dispose of its interest in CINAR Multimedia, a producer and distributor of educational multimedia products, and anticipates that the process of disposing of this business will be completed during 2002. CINAR Multimedia has been presented as a discontinued operation for the purposes of these financial statements (see note 5).

The consolidated financial statements include the accounts of CINAR Corporation and its subsidiaries from the dates of their acquisition or inception of operations. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The Company's significant accounting policies conform in all material respects with United States generally accepted accounting principles ("US GAAP"), except as described in note 24.

The preparation of financial statements in conformity with Canadian and US generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates used by management in the preparation of these financial statements relate to the accounting for film costs (see note 3), tax credits receivable, income taxes receivable, allowance for doubtful accounts, amounts due from Globe-X Management Limited (see note 7) and related party receivables (see note 8).

2. NATURE OF BUSINESS AND BASIS OF PRESENTATION [Continued]

Certain figures in the 2000 and 1999 financial statements have been reclassified to conform with the basis of presentation used in 2001. These reclassifications have affected the amounts presented as marketable securities and short-term money market investments, amounts due from Globe-X Management Limited, related party receivables, income taxes receivable and future income taxes. In addition, amounts previously reported on the Company's statements of operations for 2000 and 1999 relating to CINAR Multimedia have been reclassified as a loss from discontinued operations.

3. SIGNIFICANT ACCOUNTING POLICIES

Inventories

Inventories consist primarily of finished printed education materials, audio products and science kits, and are valued at the lower of cost (first-in, first-out method) and net realizable value.

Film costs

The Company capitalizes and amortizes production costs using the individual film forecast method, in accordance with FASB 53. Production costs, net of government assistance and financial partners' contributions, are amortized in the proportion that revenues recognized during the year bear to management's estimate of the total revenues expected over the life of the production, net of any costs of disposition. Revenue estimates, on a production-by-production basis, are reviewed periodically by management and are revised, if warranted, based on management's appraisal of current market conditions. Where unamortized costs exceed net recoverable amount, based on management's revenue estimates, the carrying value of such productions are written down to such net recoverable amount. Amortization and write-downs of film costs are included in cost of sales. The Company also has an interest in productions which have been fully amortized in prior years and which have no carrying value in these financial statements.

Acquired film libraries

Acquired film libraries are amortized on the straight-line basis over a period up to 10 years. On a periodic basis, management reviews the carrying value of its acquired film libraries by evaluating undiscounted expected cash flows. Film libraries are written down to their estimated net recoverable amount when a permanent decline is identified.

Fixed assets

Fixed assets are amortized on the diminishing balance basis at the following rates:

Furniture and fixtures	20%
Equipment	30%
Computer equipment	30%

Leasehold improvements are amortized on the straight-line basis over the terms of the leases.

Investments

The Company accounts for its investments in which it exercises significant influence using the equity method. Other investments are accounted for using the cost method.



3. SIGNIFICANT ACCOUNTING POLICIES [Continued]

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets of acquired businesses and is amortized on a straight-line basis over a period up to 30 years. On a periodic basis, management reviews the carrying value of the goodwill by evaluating undiscounted expected cash flows of the related business. Goodwill is written down to its estimated net recoverable amount when a permanent impairment is identified.

For the year ended November 30, 2001, management has determined that a goodwill write-down of $13,687,000 is required for its investment in Twin Sisters (see note 4).

Revenue recognition

Revenues from television, licensing, distribution rights, financial partners' contributions and government production investments are recognized when the television program is accepted by the licensee, the license period has begun and there is reasonable assurance regarding collectibility thereof. Revenues derived from the sale of inventoried products are recognized when the products are shipped. Amounts received, which have not yet met the above criteria to be recognized as revenue, are recorded as deferred revenue.

Revenues from government incentives earned under the Canadian and Provincial production and production service tax credit programs are recorded as revenue in proportion to the related film cost expenditures being incurred. Film costs are amortized and included in the Company's cost of sales as these tax credits are recognized as revenue.

Income taxes

The Company has adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to the accounting for income taxes. Under the new recommendations, the liability method is used whereby future tax assets and liabilities are determined based on differences between the carrying amount and the tax basis of assets and liabilities. Future income tax assets and liabilities are measured using the enacted tax rates that will be in effect when these differences are expected to reverse. Future income tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that the assets will be realized.

The provisions have been applied without restatement of prior period financial information. Previously, the Company used the deferral method of accounting for income taxes. This change had no effect on the net loss for the year.

Stock-Based Compensation Plan

The Company has a stock-based compensation plan which is described in note 15. No compensation expense is recognized for this plan when stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to share capital.

Foreign currency

Assets and liabilities of the Company's foreign subsidiaries classified as integrated and foreign currency denominated assets and liabilities of Canadian operations are translated into Canadian dollars at the exchange rates in effect at the balance sheet date for monetary items and at the exchange rates in effect at the transaction dates for non-monetary items. Revenues and expenses are translated at average rates prevailing during the year, except for amortization which is translated at exchange rates prevailing when the related assets were produced or acquired. Gains and losses arising from the fluctuations in exchange rates are reflected

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2001 and 2000
[In Canadian dollars]
[Information relating to 2000 and prior is not audited]

3. SIGNIFICANT ACCOUNTING POLICIES [Continued]

in earnings. For the year ended November 30, 2001, a foreign exchange gain (loss) of $4,582,000 has been included in cost of sales (2000 - $2,734,000; 1999 - ($13,341,000)).

The Company's foreign subsidiaries classified as self-sustaining are translated using the current rate method, whereby the assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the average exchange rates for the year. Translation gains and losses are deferred and included as a separate component of shareholders' equity.

The cumulative translation adjustment in shareholders' equity represents the net unrealized foreign currency translation gain or loss on the Company's net investment in self-sustaining operations. The net change in the balance for 2001 is primarily due to fluctuations in the exchange rate in respect of the US and Canadian dollars.

4. ACQUISITIONS

a) On February 22, 2000, the Company acquired 100% of the outstanding shares of Twin Sisters Productions Inc. and Twin Sisters Licensing Inc. (together "Twin Sisters") for cash consideration of US$9,000,000. The aggregate purchase price may be increased to a maximum of US$11,500,000 based on Twin Sisters' achievement of performance objectives over the four fiscal years subsequent to the acquisition. Twin Sisters is based in Akron, Ohio and specializes in the development, production and sale of high quality audio products that use music and rhythm to provide children with an alternative way to learn.

[In thousands]	CDN$	US$
Assets acquired:		
Accounts receivable	1,024	701
Inventory	588	402
Fixed assets	293	201
Goodwill	13,859	9,484
	15,764	10,788
Liabilities assumed:		
Bank indebtedness	972	665
Accounts payable	1,301	891
Net assets	13,491	9,232
Purchase Price:		
Cash	13,151	9,000
Costs of acquisition	340	232
	13,491	9,232

During 2001, Twin Sisters experienced operating losses and, accordingly, the Company has decided that the goodwill associated with this business can no longer be justified. The Company has recorded a charge of $13,687,000 in 2001 to write off the balance of goodwill relating to this business. This amount has been recorded as an unusual item (see note 18).



4. ACQUISITIONS [Continued]

b) On February 15, 2000, the 2,500,000 Lightspan Partnership Inc. ("Lightspan") Series E Preferred Shares purchased by the Company on October 29, 1999 were converted to 1,250,000 common shares as part of a general share reorganization, prior to Lightspan's initial public offering. The Company purchased an additional 833,333 common shares at the offering price for cash consideration of US$10,000,000, resulting in an ownership interest in Lightspan, after the initial public offering, of 4.7%.

As at May 31, 2000, the Company's investment in Lightspan had an aggregate market value of approximately US$2,148,000. The impairment in value of this investment was not considered to be temporary and management recorded a charge of $30,905,000, at that date, to write down this investment to reflect its impairment in value (see note 18). The carrying value of this investment is currently $3,267,000.

5. DISCONTINUED OPERATIONS

During 2001, the Company adopted a plan to divest of its interest in CINAR Multimedia, a division specializing in the production and distribution of educational multimedia products. The Company has entered into preliminary discussions with several interested parties, but to date has been unable to finalize any transaction. Accordingly, the operations of this division have been reclassified as discontinued operations for 2001, 2000 and 1999. As a result of its inability to complete a sale of the division, the Company has fully written off the net assets of CINAR Multimedia during 2001. The results of the Multimedia division for 2001 include the write-off of the net assets of the division and all closing costs related to terminating its operations.

[In thousands]	**2001 $**	2000 [Unaudited] $	1999 [Unaudited] $
Revenues	**4,571**	6,176	5,909
Net loss from operations	**(5,290)**	(2,739)	(49,419)
Loss on disposal and closing costs	**(4,636)**	-	-
Loss from dicontinued operations	**(9,926)**	(2,739)	(49,419)

As at November 30, 2001 and 2000, the carrying value of the Multimedia division's net assets were as follows:

[In thousands]	**2001 $**	2000 [Unaudited] $
Assets under discontinued operations	**-**	13,825
Liabilities under discontinued operations	**4,636**	3,671
	(4,636)	10,154

6. MARKETABLE SECURITIES AND SHORT-TERM MONEY MARKET INVESTMENTS

On November 30, 2001, marketable securities and short-term money market investments are carried at cost, which approximates market value at that date. The November 30, 2001 portfolio consists entirely of short-term securities deposited with Canadian and US financial institutions with yields ranging from 2.00% to 2.02% per annum and maturing no later than April 25, 2002.

7. AMOUNTS DUE FROM GLOBE-X MANAGEMENT LIMITED

Prior to March 6, 2000, the Company had invested funds with Globe-X Management Limited ("Globe-X"), a Bahamian investment management company, without the approval of the Company's Board of Directors. Globe-X invested the Company's funds in high grade marketable securities which were subsequently pledged in support of loans, the proceeds of which were invested in short term notes of Globe-X Canadiana Limited ("GXC"), an offshore investment company. As at November 30, 2001, $59,420,000 (US$37,780,000) remained invested with Globe-X. Subsequent to November 30, 2001, the Company received $1,454,000 (US$925,000) of its invested funds from Globe-X. The Company is uncertain of the probability and timing of the receipt of the remaining funds invested with Globe-X and, accordingly, has provided for all amounts not yet received as at the date of these financial statements, as follows:

[In thousands]	**2001** **$**	2000 [Unaudited] $
Amounts due from Globe-X	**59,420**	65,940
Allowance for uncollectible amounts	**(57,966)**	(63,328)
	1,454	2,612

The amount due from Globe-X of $59,420,000 at November 30, 2001, reflects the receipt of $18,874,000 (US$12,000,000) which was received from a company affiliated with Globe-X and for which Globe-X has stated represented a partial repayment of the funds invested by the Company with Globe-X. The Company, however, reserves the right to assert that this amount does not constitute a payment in reduction of the indebtedness of Globe-X and reserves the right to make any claim with respect thereto which it deems appropriate (see notes 8 and 16).

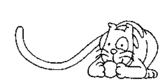
8. RELATED PARTY RECEIVABLES

The related party receivables balance of $29,168,000 (2000 - $29,267,000) comprises amounts owing by certain directors and former officers of the Company and entities controlled by these individuals. As at November 30, 2001 and 2000, the Company recorded an allowance against the full amount of the related party receivables. This amount, including fluctuations arising due to changing foreign exchange rates, has been included in the Company's statement of operations for the years ended November 30, 2001, 2000 and 1999 as an unusual item (see note 18).

Included in the related party receivables is an amount of $18,874,000 (US$12,000,000) in respect of which there are conflicting claims. For the purposes of these financial statements, the Company has treated this amount as being owed by related parties. If the assertions of the related parties are ultimately determined to be upheld, this would have the effect of reducing the related party receivables by $18,874,000 (US$12,000,000) and increasing the amounts due from Globe-X Management Limited by the same amount (see note 7).

9. INVENTORIES

[In thousands]	**2001** **$**	2000 [Unaudited] $
Finished goods	**11,477**	12,478
Work-in-process	**1,813**	2,098
	13,290	14,576



November 30, 2001 and 2000
[In Canadian dollars]
[Information relating to 2000 and prior is not audited]

10. FILM COSTS

[In thousands]	2001 $	2000 [Unaudited] Restated (See Note 1) $	2000 [Unaudited] Previously Reported $
Released	**15,429**	18,047	44,802
In process	**2,985**	8,011	31,354
At cost, net of amortization and write-downs	**18,414**	26,058	76,156

The Company performed an extensive analysis of the carrying value of its film costs to comply with FASB 53 (see note 1). As a result, the Company restated its film costs balance previously reported in 2000 and prior periods.

11. ACQUIRED FILM LIBRARIES

The Company performed an extensive analysis of the carrying value of its acquired film libraries which resulted in a write-down of $15,000,000. In addition, the Company revised its amortization policy for its acquired film libraries, reducing their useful life from 20 years to 10 years. These amounts have been reflected as an adjustment to the balance of retained earnings as at December 1, 1998 and the statements of operations for 1999 and 2000.

During 2000, the Company entered into an agreement to sell an interest in the Bonneville library, acquired on November 29, 1999, to a co-production partner for an aggregate consideration of $1,585,000 (US$1,075,000). The Company recorded this amount as a reduction in the carrying value of the film library in 2000. Due to the uncertainty regarding the collection of this amount, the full amount has been provided for in these financial statements.

During 1999, the Company entered into an agreement to sell an interest in the Leucadia library, acquired on February 8, 1999, to a co-production partner for an aggregate consideration of $1,296,000 (US$887,000). The Company recorded this amount as a reduction in the carrying value of the film library in 1999.

12. FIXED ASSETS

[In thousands]	Cost $	Accumulated Amortization $	Net $
2001			
Furniture and fixtures	**2,879**	**1,738**	**1,141**
Equipment	**8,814**	**5,994**	**2,820**
Computer equipment	**5,701**	**4,291**	**1,410**
Leasehold improvements	**3,209**	**2,938**	**271**
	20,603	**14,961**	**5,642**
2000 [Unaudited]			
Furniture and fixtures	3,503	1,556	1,947
Equipment	9,887	6,321	3,566
Computer equipment	8,442	6,115	2,327
Leasehold improvements	3,884	3,250	634
	25,716	17,242	8,474

November 30, 2001 and 2000
[In Canadian dollars]
[Information relating to 2000 and prior is not audited]

13. OTHER ASSETS

[In thousands]	**2001 $**	2000 [Unaudited] $
Investment in Lightspan, net of write-down of $30,905,000 (see notes 4 and 18)	**3,267**	3,267
Investment in the animation cable channel, TeleTOON, accounted for by the equity method	**2,873**	1,871
Other	**71**	178
	6,211	5,316

In the normal course of its operations, the Company enters into sales transactions with TeleTOON, of which it owns a 20% equity interest. These transactions with this related party are measured at the exchange amount which is the amount of the consideration established and agreed to by the parties. The following table summarizes these transactions for 2001, 2000 and 1999 and discloses the amounts receivable from TeleTOON at the end of each of these years.

[In thousands]	**2001 $**	2000 [Unaudited] $	1999 [Unaudited] $
Revenues	**2,739**	4,260	1,278
Dividends	**1,090**	860	881
Amounts due from TeleTOON	**3,862**	3,999	3,320

14. TERM DEBT

During 2001, the Company repaid its US$26,000,000 term credit facility in full. The Company incurred $2,023,000 of interest on its term debt during 2001 (2000 - $3,582,000). As at the date of these financial statements, the Company no longer has lines of credit at its disposal.

15. CAPITAL STOCK

Authorized

The Variable Multiple Voting Shares (also referred to as Class A shares) and Limited Voting Shares (also referred to as Class B shares) are mandatorily or optionally convertible one into the other under certain conditions, on a one-for-one basis. Except for voting, conversion and certain rights with respect to dividends, the Variable Multiple Voting Shares and Limited Voting Shares have the same rights.

Voting rights

The holders of Variable Multiple Voting Shares and Limited Voting Shares are entitled to receive notice of, to attend and to vote at all meetings of shareholders on the basis of ten votes per share (or such greater number of votes as provided for pursuant to a formula set out in the articles of the Company) and one vote per share respectively.

The authorized capital of the Company throughout 1999, 2000 and 2001 was as follows:



15. CAPITAL STOCK [Continued]

An unlimited number of the following classes of shares without par value:

- Preferred Shares, issuable in series, the characteristics of which are to be determined by the Board of Directors;
- Variable Multiple Voting Shares; and
- Limited Voting Shares.

On or about March 10, 2000, the Toronto Stock Exchange ("TSE") and the NASDAQ Stock Market ("NASDAQ") suspended trading of the Company's shares pending receipt of additional information from the Company, including the completion of the November 30, 1999 audited financial statements. The trading halt was issued due to the reported findings of the reviews undertaken by the Company and its Audit Committee, which indicated that previously reported audited financial results for the years ended November 30, 1998 and 1997 would likely need to be restated and that the financial statements reported for the first three quarters of fiscal 1999 would also need to be restated. On August 2, 2000, the Company's securities were delisted from the NASDAQ. On August 29, 2000, the TSE suspended trading of the Company's Variable Multiple Voting Shares and Limited Voting Shares and they were subsequently delisted on August 29, 2001.

The Quebec Securities Commission (Commission des valeurs mobilières du Québec) and other Canadian securities regulatory authorities have issued cease-trade orders in respect of the securities of the Company, prohibiting trading in respect thereof. No assurance can be given as to when, if ever, and under what conditions these orders may be lifted and the shares of the Company may once again be listed for trading on an organized market.

Issued

The issued capital stock is as follows:

	Number of shares		Stated Capital ($)	
	Variable Multiple Voting Shares	Limited Voting Shares	Variable Multiple Voting Shares	Limited Voting Shares
Balance, November 30, 1998	6,260,442	26,871,298	5,564,387	270,129,613
Issue pursuant to the prospectus dated March 3, 1999 less issue costs [net of income taxes of $4,980,000]	-	7,550,000	-	221,602,000
Issue pursuant to the exercise of options	-	289,450	-	3,578,000
Conversions from Variable Multiple to Limited Voting	(930,440)	930,440	(826,991)	826,991
Balance, November 30, 1999	5,330,002	35,641,188	4,737,396	496,136,604
Issue pursuant to the exercise of options	-	12,780	-	308,000
Conversions from Variable Multiple to Limited Voting	(96,600)	96,600	(85,860)	85,860
Balance, November 30, 2000 and 2001	**5,233,402**	**35,750,568**	**4,651,536**	**496,530,464**

Employee stock option plan

The Company maintains a stock option plan for directors, officers and employees of the Company and its subsidiaries (the "Plan") under which the Board of Directors or a committee appointed for such purpose may periodically grant to directors, officers or

15. CAPITAL STOCK [Continued]

employees of the Company options to acquire Limited Voting Shares, in such numbers, under such terms and at such exercise prices as are determined by the Board of Directors or such committee. As a result of the various outstanding cease-trade orders affecting the Company, the Board of Directors cannot currently grant any options to acquire shares of the Company to any person nor can the Company issue any shares upon an exercise of such options.

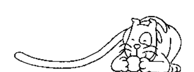
Under the Plan, the exercise price of an option will not be lower than the average of the daily high and low prices of the Limited Voting Shares during the five-day period ending on the last trading day preceding the granting of the option. Each option shall be exercisable during a period determined by the Board of Directors or a committee appointed for such purpose, which period, in any event, shall not exceed ten years. The options are non-assignable. In the event that an offer to purchase is made to all the holders of the shares in the Company, all unexercised options will become exercisable immediately at a subscription price to be determined by the Board of Directors or a committee appointed for such purpose (not to be less than the exercise price as determined at the time of the grant), but only to the extent necessary to enable an optionee to tender his or her shares should the optionee desire.

The maximum number of Limited Voting Shares which have been authorized for the granting of options is 4,054,382. The options vest at the rate of 20% at the time of granting and 20% per annum over the following four years. As at November 30, 2001, the following options were outstanding:

Number of options		**Exercise price**	**Expiry date**
Variable Multiple Voting	Limited Voting		
-	81,100	$17.00	December 29, 2001
-	35,200	$16.00	May 14, 2002
-	123,800	$23.00	September 8, 2002
-	73,500	$25.50	June 26, 2003
420,000	420,000	$2.75	September 1, 2003
-	224,000	$31.00	February 3, 2004
-	31,500	$37.00	April 20, 2004
420,000	989,100		

The continuity of the outstanding stock options is as follows:

	2001		2000	
	Variable Multiple Voting Shares	**Limited Voting Shares**	Variable Multiple Voting Shares	Limited Voting Shares
Balance, beginning of year	**420,000**	**1,504,050**	420,000	2,003,450
Granted	-	-	-	-
Exercised	-	-	-	(12,780)
Cancelled	-	**(514,950)**	-	(486,620)
Balance, end of year	**420,000**	**989,100**	420,000	1,504,050



16. FINANCIAL INSTRUMENTS

Fair Value

As at November 30, 2001, the Company's financial instruments included cash, marketable securities and short-term money market investments, accounts receivable, tax credits receivable, income taxes receivable and accounts payable and accrued liabilities. The fair value of all of the Company's financial assets and liabilities were approximately equal to their carrying value at November 30, 2001 and 2000, due to the short-term nature of these instruments.

Credit Risk

As detailed in note 7, certain offshore securities were pledged through Globe-X Management Limited ("Globe-X"), a Bahamian investment management company, in support of the purchase of fixed rate commercial paper in Globe-X Canadiana Limited. This investment strategy was not authorized by the Company's Board of Directors and was immediately ceased in March 2000, when these investment activities were brought to the attention of the Company's Board of Directors. At the time that the investment strategy was terminated, the total amount of the marketable securities that were pledged was approximately US$122 million. As a result of the structure of the unauthorized investments, the Company was unable to recover all of its invested funds.

The Company and Globe-X entered into a formal agreement in October 2000 outlining a repayment schedule for the funds that remained invested in Globe-X. As at the date of these financial statements, Globe-X was in default of this agreement and the Company had recorded an allowance of $57,966,000 to fully reserve against all uncollected funds (see note 7). In addition, as a result of the risks associated with the collection of these amounts, the Company has not accrued approximately $4,005,000 (2000 - $7,463,000) of interest earned during 2001 under its agreement with Globe-X. Any interest collected will be credited to income in such period.

Foreign Exchange Risk

A significant portion of the transactions entered into by the Company are denominated in foreign currencies, particularly the US dollar. The Company does not enter into foreign currency forward contracts to hedge its position in these transactions and is exposed to the risks resulting from the fluctuation in value of the Canadian dollar against these foreign currencies. As described in note 3, the foreign exchange gains and losses resulting from the translation of foreign currency denominated transactions of the Canadian operations are included in cost of sales.

17. REVENUES

Revenues include the following:

[In thousands]	**2001** **$**	2000 [Unaudited] $	1999 [Unaudited] $
Canadian refundable tax credits	**2,177**	2,218	4,394
Provincial refundable tax credits	**2,895**	5,194	8,475
Government production investments	**-**	1,150	4,378
Interest	**1,766**	4,031	8,660

18. UNUSUAL ITEMS

[In thousands]	**2001** **$**	2000 [Unaudited] $	1999 [Unaudited] $
Write-off of Twin Sisters goodwill	**13,687**	-	-
Restructuring costs	**9,769**	-	-
Professional fees	**5,254**	14,035	-
Interest and penalties	**2,118**	7,373	-
Write-down of investment in FIDEC	**50**	-	-
Allowance for (recovery of) uncollectible amounts from Globe-X Management Limited	**(6,769)**	(2,363)	63,032
Write-down (gain on sale) of investment in SMEC	**(100)**	649	-
Allowance for (recovery of) uncollectible amounts due from related parties	**(85)**	2,665	21,697
Write-down of investment in Lightspan	-	30,905	-
Write-down of acquired film libraries	-	530	-
Foreign currency trading	-	-	(15,053)
	23,924	53,794	69,676

Write-off of Twin Sisters goodwill

During 2001, Twin Sisters experienced operating losses and accordingly the balance of the goodwill associated with the acquisition can no longer be justified. The Company has recorded a charge of $13,687,000 in 2001 to write off the balance of goodwill relating to the Twin Sisters acquisition.

Restructuring costs

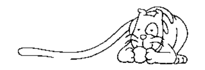
During 2001, in an effort to restructure the operations of its Entertainment division and its corporate head office, the Company undertook a downsizing in its Montreal, London, Ireland and Mexico-based operations. During 2001, the Company accrued $9,769,000 covering salaries, severance costs and employee benefits, certain future rental costs relating to premises that are no longer in use and professional fees relating to the restructuring.

Professional fees

During 2001 and 2000, the Company engaged the services of external legal and financial advisors to assist it in performing investigations into certain issues relating to tax incentives, previously undisclosed related party transactions and certain unauthorized transactions discovered in the financial records of the Company, as well as to defend the Company against various lawsuits and to assist it in pursuing a potential sale of the Company. For the year ended November 30, 2001, the Company incurred $5,254,000 (2000 - $14,035,000) of professional fees in conjunction therewith.

Interest and penalties

In November 2001, the Company reached an agreement with Telefilm Canada ("Telefilm") to repay certain amounts received under funding programs administered by Telefilm, related to the Canadian Audio Visual Certification Office ("CAVCO") de-certification of certain productions. In conjunction with this agreement, the Company has agreed to pay interest and penalties relating to such funding received. An amount of $1,000,000 has been accrued in 2001, reflecting the full amount of this liability. The Company has accrued an additional $1,118,000 in interest and penalties to account for the potential reassessment of the



18. UNUSUAL ITEMS [Continued]

Company's previously filed corporate tax returns by the Canadian and Provincial tax authorities.

In November 2000, the Company reached an agreement with both the Canadian and Provincial tax authorities to repay certain tax incentives inappropriately claimed by the Company. In conjunction with this agreement, the Company also agreed to pay interest and penalties related to such tax incentive claims. An amount of $7,373,000 has been accrued in 2000, reflecting the full amount of this liability.

Write-down of investment in FIDEC

During 2001, the Company decided to dispose of its investment in FIDEC, a Quebec-based private investment fund. In early 2002, the Company reached an agreement to sell its interest in FIDEC for an up-front consideration of $50,000, plus a contingent amount of up to $42,000, payable in May 2003, based on the performance of the investment over this period. In addition, under the terms of the agreement, the acquiring party has agreed to assume the Company's future funding commitments to FIDEC. The Company has recorded a charge of $50,000 in 2001, to record the loss on disposal of its investment in FIDEC.

Allowance for (recovery of) uncollectible amounts due from Globe-X Management Limited

During 1999, the Company reserved for amounts not yet received from Globe-X as at the date of issue of the November 30, 1999 financial information, totaling $63,032,000. Subsequent thereto, the Company recovered certain amounts from Globe-X related to amounts previously reserved. As such, the Company has realized a recovery of $6,769,000 during 2001 (2000 - $2,363,000) against such provisions.

Write-down (gain on sale) of investment in SMEC

During 2001, the Company sold its interest in SMEC for an aggregate consideration of $305,000 (US$200,000). This resulted in the Company recognizing a gain of $100,000 in 2001 on the disposal of this investment. Prior to the sale, SMEC had incurred losses over the past several years, which had been accounted for under the proportionate consolidation method. Due to the uncertainty surrounding the viability of the business, the Company had recorded a charge of $649,000 in 2000 to write down the investment to its estimated net recoverable amount.

Allowance for (recovery of) uncollectible amounts due from related parties

As a result of the Company's internal review of its accounting records, it was determined that there existed previously undisclosed related party transactions between the Company and certain directors and former officers of the Company and entities controlled by these individuals. Due to uncertainty regarding the collection of the resulting amounts owed by these individuals to the Company, the full balance of the related party receivables had been provided for. An $85,000 recovery has been recorded in 2001 to reflect a decrease in this allowance, resulting from a reduction in amounts due from these related parties as a result of fluctuations in foreign exchange rates.

Write-down of investment in Lightspan

As at November 30, 2000, the Company's US$22,500,000 investment in Lightspan had an aggregate market value of $3,267,000 (US$2,148,000). During 2000, the Company had taken a charge of $30,905,000 to write down the investment in Lightspan to reflect its fair value. No further write-down was required during 2001.

November 30, 2001 and 2000
[In Canadian dollars]
[Information relating to 2000 and prior is not audited]

18. UNUSUAL ITEMS [Continued]

Write-down of acquired film libraries

The Company determined that a write-down of its acquired film libraries totaling $15,000,000 was required and recorded this amount as an adjustment in 2000 and prior periods. Of this amount, $530,000 was applicable to 2000 and, accordingly, was recorded as an unusual item in the Company's restated statement of operations for 2000.

Foreign currency trading

During 1999, the Company entered into certain speculative foreign currency transactions, resulting in a foreign exchange gain of $15,053,000. Given the unusual nature of these transactions, the resulting gain on these contracts was recorded as an unusual item. No such transactions were entered into during 2000 and 2001.

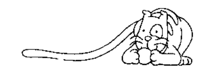
19. INCOME TAXES

Significant components of the provision for income taxes are as follows:

[In thousands]	**2001 $**	2000 [Unaudited] $	1999 [Unaudited] $
Current	**2,372**	276	5,158
Future	**1,018**	298	(2,130)
Total	**3,390**	574	3,028

The tax effects of temporary differences that give rise to significant portions of the future tax liabilities as at November 30, 2001 are as follows:

[In thousands]	**2001 $**
Deductible temporary differences:	
Inventories	**633**
Deferred revenue	**338**
Accrued liabilities	**1,000**
Total gross future tax assets	**1,971**
Taxable temporary differences:	
Fixed assets	**1,483**
Goodwill	**3,905**
Total gross future tax liabilities	**5,388**
Net future tax liabilities	**3,417**



19. INCOME TAXES [Continued]

Variation in income tax rate:

(Recovery)	**2001** %	2000 [Unaudited] %	1999 [Unaudited] %
Combined basic Canadian Federal and Provincial income tax rate	**(35.9)**	(36.9)	(36.9)
(Increase) decrease in the income tax rate resulting from:			
Manufacturing and processing profits deduction	-	0.3	1.5
Income tax surcharge	**(1.3)**	(1.2)	(1.4)
Difference in tax rates of foreign jurisdictions	**2.5**	4.3	1.0
Non-deductible reserves	**24.2**	26.4	36.3
Effect of unrecorded benefit on tax losses carry forward	**22.0**	9.6	-
Miscellaneous	**0.3**	(1.5)	2.7
Effective tax rate	**11.8**	1.0	3.2

The Company has reported tax losses carry-forward as at November 30, 2001 of approximately $28,000,000 for Canadian tax purposes and approximately $21,000,000 for Provincial tax purposes. Such tax losses may be applied against taxable income of future years no later than 2008. The income tax returns have not yet been assessed by the income tax authorities. The benefit relating to these tax losses has not been recognized in these consolidated financial statements.

Deductible temporary differences for which no future income tax asset has been recognized amount to approximately $190,000,000.

20. LOSS PER VARIABLE MULTIPLE VOTING (CLASS A) SHARE AND LIMITED VOTING (CLASS B) SHARE

Basic loss per share is calculated based on the weighted average number of shares outstanding during the year. The fully diluted loss per share has not been calculated, as it would be anti-dilutive.

21. CONTRACTUAL OBLIGATIONS

The minimum rentals payable under long-term operating leases with third parties as well as a company owned by a senior officer, exclusive of certain operating costs for which the Company is responsible, are as follows:

[In thousands]	**Third Parties $**	**Related $**
2002	**1,147**	**1,060**
2003	**633**	**13**
2004	**542**	**13**
2005	**245**	-
2006	**264**	-
2007-2010	**774**	-
	3,605	**1,086**

November 30, 2001 and 2000
[In Canadian dollars]
[Information relating to 2000 and prior is not audited]

21. CONTRACTUAL OBLIGATIONS [Continued]

Rent expense included in selling, general and administrative expenses is as follows:

[In thousands]	**2001** **$**	2000 [Unaudited] $
Third parties	**1,697**	1,241
Related	**1,538**	964

Rental payments to related parties in 2001 and 2000 included payments to a company owned by a senior officer and one owned by two directors. The related party transactions were measured at the exchange amount which is the amount of the consideration established and agreed to by the related parties.

22. CONTINGENT LIABILITIES

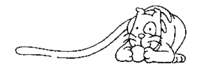
Contingencies not disclosed or reflected elsewhere in these consolidated financial statements are as follows:

a) Between February 23, 2000 and May 19, 2000, eight separate class action lawsuits were brought against the Company in the United States District Court, Eastern District of New York and two class action lawsuits have been brought against the Company in the United States District Court, District of New Jersey. Eight of the class action lawsuits have since been consolidated into a single class action lawsuit in the United States District Court, Eastern District of New York. These lawsuits allege that the Company has committed violations under the United States federal securities laws. The outcome of these claims is currently not determinable; however, if the Company is unsuccessful in defending these claims, the liabilities which may arise therefrom may have a material effect on these consolidated financial statements.

b) On March 7, 2000, certain shareholders in Canada served notice of a class action complaint against the Company in the Superior Court, District of Montreal. This lawsuit alleges that the Company has committed violations under Canadian securities legislation. The outcome of this claim is currently not determinable; however, if the Company is unsuccessful in defending this claim, the liability which may arise therefrom may have a material effect on these consolidated financial statements.

c) On May 19, 2000, the former shareholders of HighReach Learning, Inc. brought an action against the Company in the United States District Court, Western District of North Carolina, alleging breaches of United States federal securities laws and North Carolina securities laws, common law fraud and common law negligent misrepresentation. This claim relates to the May 1998 sale of shares in HighReach Learning, Inc. by these former shareholders to the Company, in consideration of US$18,000,000 cash and 422,000 Limited Voting Shares which, at the time of the sale, had a market value of approximately US$7,000,000. The outcome of this claim is currently not determinable; however, if the Company is unsuccessful in defending this claim, the liability which may arise therefrom may have a material effect on these consolidated financial statements.

d) On July 20, 2000, the former shareholders of Carson-Dellosa Publishing Company Inc. brought an action against the Company in the United States District Court, Middle District of North Carolina, alleging breaches of United States federal securities laws and North Carolina securities laws, common law fraud, common law negligent misrepresentation, breach of contract and unfair trade practices. This claim relates to the July 1997 sale of shares in Carson-Dellosa Publishing Company Inc. by these former shareholders to the Company, in consideration of approximately US$22,000,000 cash and 930,570 Limited Voting Shares (on a split-adjusted basis), which at the time of the sale, had a market value of approximately US$16,000,000. The outcome of this claim is currently not determinable; however, if the Company is unsuccessful in defending this claim, the liability which may arise therefrom may have a material effect on these consolidated financial statements.



22. CONTINGENT LIABILITIES [Continued]

e) Pursuant to the November 2000 agreement with both the Canadian and Provincial tax authorities as detailed in note 1, it appears that the Canadian Audio Visual Certification Office ("CAVCO") decertification of certain productions may require reimbursements of certain amounts under license agreements with certain Canadian broadcasters, as well as the renegotiation of certain other broadcast license agreements. The Company is currently in discussions with regulatory bodies regarding these issues and the outcome and impact of these negotiations is currently not determinable. Any adjustments, if required, related to these license agreements, will be reflected in the Company's financial statements in the year of settlement.

f) On August 8, 2000, the principals of BRB International, S.A. ("BRB") instituted an action against the Company and certain of its former officers in Montreal District Court for breach of contract. BRB has claimed that the Company failed to complete an alleged agreement to purchase 100% of the shares of BRB and its affiliates. The outcome of this claim is currently not determinable; however, if the Company is unsuccessful in defending this claim, the liability which may arise therefrom may have a material effect on these consolidated financial statements.

g) On May 23, 2000, an employee of the Company instituted an action against the Company in Montreal District Court claiming damages of approximately $1.8 million related to certain stock options in the Company. The outcome of this claim is currently not determinable; however, if the Company is unsuccessful in defending this claim, the liability which may arise therefrom may have a material effect on these consolidated financial statements.

h) On January 16, 2001, counsel to the Company received a letter from counsel to the Company's co-founders claiming an aggregate of $7,900,000 as at June 30, 2000, plus interest. The Company denies this claim; however, if the Company is unsuccessful in defending this claim, the liability which may arise therefrom may have a material effect on these consolidated financial statements.

i) On March 29, 2001 the former shareholders of Twins Sisters brought an action against the Company in the United States District Court, Eastern District of New York, alleging common law fraud and negligent misrepresentation. The claim relates to the February 2000 sale of shares in Twin Sisters by these former shareholders to the Company in consideration of US$9,000,000 cash and additional consideration of US$2,500,000 based on future performance objectives. There are also cash bonuses payable under employment agreements based on the attainment of certain earnings targets, and the waiver of certain royalties which would have been otherwise payable. The outcome of this claim is currently not determinable; however, if the Company is unsuccessful in defending this claim, the liability which may arise therefrom may have a material effect on these consolidated financial statements.

j) On August 24, 2001, an action was brought against the Company and others by Liberty Mutual Insurance Company ("Liberty") in the Superior Court, District of Montreal. This lawsuit seeks declaratory relief annulling policies of Directors' and Officers' insurance issued by Liberty in the policy years 1997, 1998 and 1999 and the recovery of approximately $900,000 of legal fees which have been paid on behalf of the Company and its employees. The action alleges the applications for such policies were, among other things, inaccurate. The Company was a named insured under the 1999 policy with a limit of US$25,000,000. The outcome of this claim is currently not determinable; however, if the Company is unsuccessful in defending this claim, the liability which may arise therefrom may have a material effect on these consolidated financial statements.

k) On July 16, 1996, an action in damages in the amount of $2,023,000 and requesting the issuance of various orders have been instituted by Claude Robinson and Les Productions Nilem Inc. against the Company and other named defendants based on an alleged illegal plagiarism of Claude Robinson's work, in a series entitled "Robinson Sucroe". The outcome of this claim is currently not determinable; however, if the Company is unsuccessful in defending this claim, the liability which may arise therefrom may have a material effect on these consolidated financial statements.

November 30, 2001 and 2000
[In Canadian dollars]
[Information relating to 2000 and prior is not audited]

22. CONTINGENT LIABILITIES [Continued]

l) In the event of a change of control of the Company whereby the Company would cease to be Canadian or Quebec-controlled as required under applicable legislation or programs, the Company may be required to reimburse tax credits and other government incentives previously received by it. These same requirements could apply to a sale of assets or similar transactions. The amounts of these reimbursements could have a material effect on these consolidated financial statements.

In the normal course of its operations, the Company becomes involved in various legal claims and lawsuits. The Company intends to vigorously defend these claims. While the final outcome with respect to any actions outstanding or pending as at November 30, 2001 cannot be predicted with certainty, it is the opinion of management that, with the possible exceptions outlined above, their resolution will not have a material adverse effect on the Company's financial position.

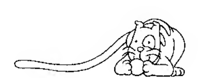
23. SEGMENTED INFORMATION

The Company's main business segments are entertainment and education. Results of operations for each segment are as follows:

[In thousands]	**Entertainment $**	**Education $**	**Total $**
2001			
Revenues	**45,260**	**86,470**	**131,730**
Amortization	**2,229**	**5,243**	**7,472**
Net loss from continuing operations	**(27,668)**	**(4,429)**	**(32,097)**
EBITDA, before unusual items	**(13,750)**	**15,474**	**1,724**
Total assets	**141,504**	**137,917**	**279.421**
Capital expenditures	**330**	**873**	**1,203**
2000 [Unaudited]			
Revenues	71,085	77,249	148,334
Amortization	2,136	5,125	7,261
Net earnings (loss) from continuing operations	(68,999)	9,154	(59,845)
EBITDA, before unusual items	(12,706)	15,437	2,731
Total assets	204,925	146,575	351,500
Capital expenditures	380	2,394	2,774

The entertainment segment operates mainly in Canada and exports to the United States and other countries. The education segment operates mainly in the United States. Entertainment revenues derived from export sales are as follows:

[In thousands]	**2001 $**	2000 [Unaudited] $	1999 [Unaudited] $
United States	**9,628**	19,895	16,598
Other	**20,016**	21,303	27,288
	29,644	41,198	43,886



November 30, 2001 and 2000
[In Canadian dollars]
[Information relating to 2000 and prior is not audited]

24. ADDITIONAL DISCLOSURES REQUIRED UNDER US GAAP

Stock-based compensation

In accordance with Canadian GAAP and US GAAP [under the Accounting Principles Board Opinion No. 25], the Company does not recognize compensation expense for stock options granted in the statements of operations, as the market price of the underlying stock on the grant date does not exceed the exercise price of the options granted. Had compensation cost for these stock options been determined consistent with SFAS No. 123, the Company's pro forma loss per share would have been as follows:

[In thousands]	**2001 $**	2000 [Unaudited] $	1999 [Unaudited] $
Net loss per financial statements	**(42,023)**	(62,584)	(146,272)
Pro forma stock compensation expense, after a nil income tax effect	**(1,686)**	(1,894)	(1,894)
Pro forma net loss under US GAAP	**(43,709)**	(64,478)	(148,166)
Pro forma basic loss per share under US GAAP	**($1.07)**	($1.57)	($3.82)

Comprehensive Income

In accordance with US GAAP, the Company is required to prepare a distinct statement of comprehensive income. This statement would be as follows:

[In thousands]	**2001 $**	2000 [Unaudited] $	1999 [Unaudited] $
Net loss, as adjusted per US GAAP	**(43,709)**	(64,478)	(148,166)
Translation adjustment on investment in foreign subsidiaries	**1,033**	2,182	(1,997)
Comprehensive Income	**(42,676)**	(62,296)	(150,163)

PRIX ET HONNEURS

Années 2000 et 2001

CINAR DIVERTISSEMENT

*Arthur*MD

2000 Prix Emmy pour "Outstanding Sound Mixing"

2000 Prix Emmy "Silver Medal for Family / Children Division" pour "D.W. Spins" & "Prunella Gets It Twice"

2000 Worldfest Houston International Film Festival - Festival international du film de Houston Worldfest
"Gold Medal for Animated Division" pour "D.W. Spins" & "Prunella Gets it Twice"
"Silver Medal for Family / Children Division" pour "D.W.'s Library Card" & "Arthur's Big Hit"

2001 Prix Emmy pour "Outstanding Children's Animated Program"

2001 Prix Peabody pour "Best Animated Children's Series" (avec WGBH)

2001 US International Film & Video Festival - Festival international du film & vidéo US
- Prix Silver Screen pour "Animation / Non computer" pour "The Lousy Week" & "You are Arthur" (avec WGBH)
- Prix Silver Screen pour "Children's Programming" pour "The Last of Mary Moo Cow" & "Bitzi's Beau" (avec WGBH)
- Certificat d'excellence en créativité - "Children's Programming" pour "Arthur's Perfect Christmas" (avec WGBH)

*Caillou*MD

2001 Prix "Parent's Choice - Silver Honor (Vidéo)"

2001 Prix "Parent's Choice - Silver Honor (Télévision)"

*Heart : The Marilyn Bell Story*MC

2001 Prix Gemini pour "Best Picture Editing in a dramatic Program or Series"

*Zoboomafoo*MD

2001 Prix NATAS Daytime Emmy pour "Outstanding Directing in a Children's Series" (avec PBS)
Prix "Parent's Choice - Silver Honor (Télévision)"

2000 Prix Jeunesse International de Munich - "Silver Medal Recipient"
pour "Best in Category - Up to 7 Fiction" Category: Horses" (avec PBS)

*Ghosts of Dickens' Past*MC

2000 Santa Clarita International Film Festival - Festival international du film de Santa Clarita
- Prix pour "Best Cinematography"
- Prix pour "Best Feature Drama"

CINAR ÉDUCATION

HighReach Learning

2001 "Learning Magazine Teacher's Choice"
- Prix pour "Handwriting Books"

Twin Sisters Productions

2001 "The National Parenting Center Seal of Approval"
- Prix pour "Multiplication Rap & Hip-Hop"
- Prix pour "Addition"

2001 "Parents' Choice Approval"
- "Songs for Learning"
- "Parent's Guide - Children's Media Award"
- "Songs for Rest Time"







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